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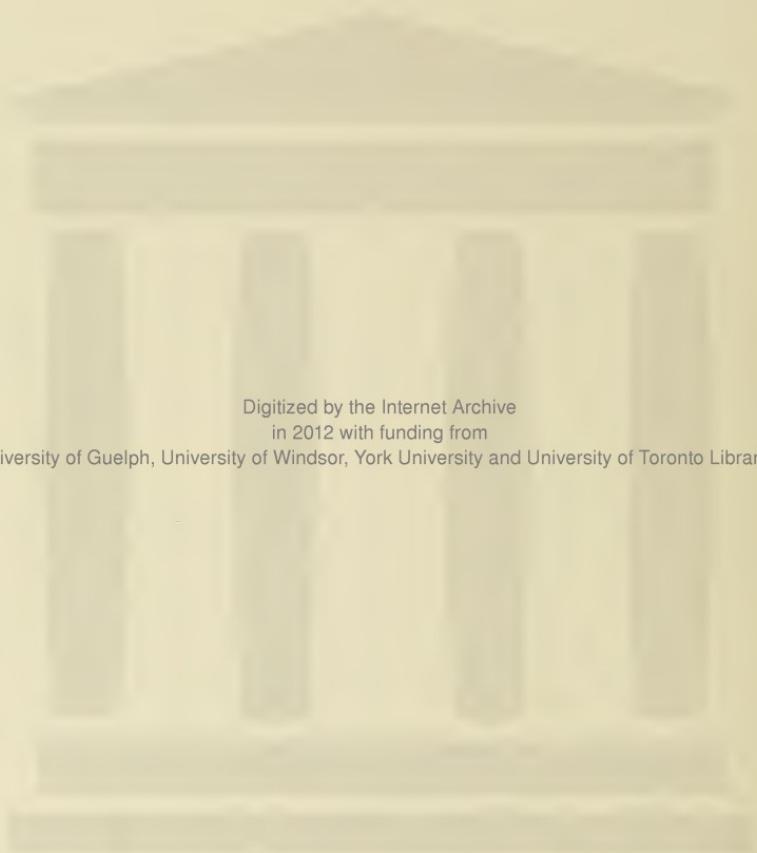
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1975

REPORT OF THE SELECT COMMITTEE  
ON ECONOMIC AND CULTURAL NATIONALISM

FINAL REPORT ON ECONOMIC NATIONALISM





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**Report of the  
Select Committee  
on  
ECONOMIC AND CULTURAL  
NATIONALISM**

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**FINAL REPORT ON  
ECONOMIC NATIONALISM**

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## Publications of the Select Committee

### REPORTS

<i>Preliminary Report of the Select Committee on Economic and Cultural Nationalism</i>	March 1972
<i>Interim Report: Foreign Ownership of Ontario Real Estate</i>	October 1973
<i>Interim Report: Colleges and Universities</i>	November 1973
<i>Interim Report: Capital Markets, Foreign Ownership and Economic Development</i>	June 1974
<i>Interim Report: Natural Resources, Foreign Ownership and Economic Development</i>	September 1974
<i>Interim Report: Advertising and the Advertising Industry</i>	October 1974
<i>Final Report on Cultural Nationalism</i>	December 1974
<i>Final Report on Economic Nationalism</i>	December 1974

### COMMISSIONED STUDIES

KATES, PEAT, MARWICK & CO: <i>Foreign Ownership: Corporate Behaviour and Public Attitudes</i>	
VOL. 1. <i>Foreign Ownership and the Advertising Industry</i>	June 1973
2. <i>Foreign Ownership: Architecture and Engineering Consulting</i>	October 1973
3. <i>Foreign Ownership and the Mining Industry</i>	October 1973
4. <i>Foreign Ownership and Forest Based Industries</i>	October 1973
5. <i>Foreign Ownership and the Auto-Parts Industry</i>	October 1973
6. <i>Foreign Ownership and the Electronics Industry</i>	December 1973
7. <i>Foreign Ownership—Employee Attitudes</i>	February 1974
8. <i>Foreign Ownership and Attitudes of Community Leaders and the General Public in Four Ontario Communities</i>	October 1973
9. <i>Foreign Ownership—Overview Report</i>	February 1974
WILLIAM A. NEILSON: <i>The Australian Regulation of Foreign Direct Investment, Recent Experience Relevant to Canadian Policies</i>	October 1973



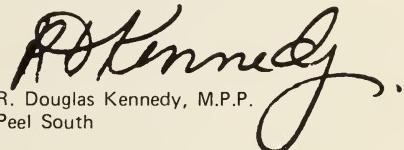
TO: The Honourable Russell D. Rowe,  
Speaker of the Legislative Assembly of the Province of Ontario:

Sir:

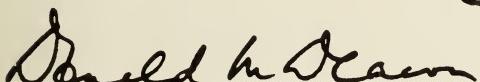
We, the undersigned members of the Committee appointed by the Legislative Assembly of the Province of Ontario on December 17, 1971, to review the Report of the Interdepartmental Task Force on Foreign Investment and the current status of opinion and information on economic and cultural nationalism in Canada, have the honour to submit the attached Final Report on Economic Nationalism.



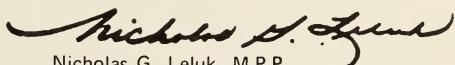
Hon. Russell D. Rowe, M.P.P.  
Northumberland,  
Chairman



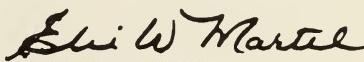
R. Douglas Kennedy, M.P.P.  
Peel South



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Nicholas G. Leluk, M.P.P.  
Humber



Elie W. Martel, M.P.P.  
Sudbury East



Ian Deans, M.P.P.  
Wentworth

Hon. William G. Newman, M.P.P. \*

Ontario South

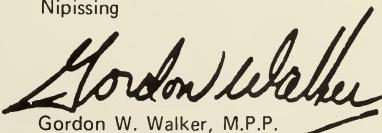
Hon. Sidney B. Handleman, M.P.P. \*  
Carleton



Richard S. Smith, M.P.P.  
Nipissing



R. Glen Hodgson, M.P.P.  
Victoria-Haliburton



Gordon W. Walker, M.P.P.  
London North

\* On February 26, 1974 Mr. Newman and Mr. Handleman were sworn as Members of the Executive Council of the Province of Ontario. Since that time they have not participated in the deliberations of the Committee in the formulation of this report, and they accordingly neither subscribe to, nor dissent from the report.



MEMBERS OF  
THE SELECT COMMITTEE ON ECONOMIC  
AND CULTURAL NATIONALISM

Hon. Russell D. Rowe, M.P.P. (Chairman)	Northumberland
Donald M. Deacon, M.P.P.	York Centre
Ian Deans, M.P.P.	Wentworth
* Hon. Sidney B. Handleman, M.P.P.	Carleton
R. Glen Hodgson, M.P.P.	Victoria-Haliburton
R. Douglas Kennedy, M.P.P.	Peel South
Nicholas G. Leluk, M.P.P.	Humber
Elie W. Martel, M.P.P.	Sudbury East
* Hon. William G. Newman, M.P.P.	Ontario South
Richard S. Smith, M.P.P.	Nipissing
Gordon W. Walker, M.P.P.	London North

STAFF

Ivan R. Feltham, Q.C. Counsel	C. K. Marchant Research Director
William R. Rauenbusch Counsel	Paul B. Moore Clerk of the Committee

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#### ACKNOWLEDGMENTS

The Committee would like to express its thanks to the many people who have contributed to the Committee's work.

Ivan R. Feltham, Q.C., Counsel, C. K. Marchant, Research Director, and John A. Holtby, Clerk, assisted the Committee from its inception. They have served with distinction in spite of the pressure of other obligations. William R. Rauenbusch, Counsel, and Paul B. Moore, Clerk, have been of invaluable assistance in the latter stages of the Committee's work and preparation of reports. Professor Stephen G. Triantis advised the Committee as Economic Consultant in the early stages of the Committee's work. Mrs. Margaret Mortimore was capable and effective as secretary throughout the Committee's existence.

Ms. Robin Inskip greatly assisted the Committee in the preparation of briefing material for its consultations abroad. Maia Bhojwani and Darlene Hanes aided in the preparation of statistics for the report on Colleges and Universities. Doris Adler, Serina Ali, Linda Christie, Sandy Davidson, Laura Dillon, Sheila Liddon, Linda Palanica and Patricia Shaw, contributed their time and energy to the preparation of the Committee reports. The Committee appreciates all their efforts.

A significant contribution was made to the Committee's work by those who prepared studies commissioned by the Committee: Neal A. Irwin, Peter F. E. Lyman, David S. Barrows, Harvey W. Kriss, Evelyn H. Lazare, Peter E. Sandor, and Robert W. J. Sturgess, of Peat, Marwick and Partners, formerly Kates, Peat, Marwick & Co.; John A. Gonder, Donald G. McGrath and Michael D. Smith of Canadian Facts Company Ltd., and W. A. W. Neilson.

The contribution of the Department of External Affairs, Canadian foreign service personnel abroad, the many government, union and business officials in the United States and in Europe, and officials of the Quebec Government, to the Committee's consultations outside the province is recorded in the chapter outlining the Committee's programme of work.

Officials of various Ministries, and in particular Colleges and Universities, Government Services, Industry and Tourism, Natural Resources, and Treasury, Economics and Intergovernmental Affairs, and the Provincial Secretariats for Resources and Social Development, gave generously of their time in assisting the Committee with a variety of matters.

In addition the Committee would like to express its appreciation to the many persons and organizations who gave of their time and effort to appear before the Committee or to prepare briefs filed with the Committee. Public participation is of the essence in inquiries by legislative committees. While it was obviously impossible for the Committee to subscribe to all the views presented to it, the Committee wishes to record its appreciation and emphasize the importance of these contributions. A complete list of those who appeared before the Committee or who filed briefs with the Committee appears in appendix form in the two final reports.



## **CHAPTER 1**

### **Recent Developments and Programme of Work of the Select Committee**

## **Contents — Chapter 1**

### **RECENT DEVELOPMENTS AND PROGRAMME OF WORK OF THE SELECT COMMITTEE**

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## INTRODUCTION

The Select Committee on Economic and Cultural Nationalism was established by a resolution of the Legislature of December 17, 1971. That resolution directed the Committee,

to review the Report of the Interdepartmental Task Force on Foreign Investment and the current status of opinion and information on economic and cultural nationalism in Canada, and to prepare a preliminary report by March 1, 1972.

In accordance with its terms of reference, the Committee tabled a Preliminary Report on economic and cultural nationalism in March, 1972. The principal conclusion of that report was that the state of information and analysis relating to economic and cultural nationalism in Ontario and Canada was inadequate. The Committee emphasized proposals for studies to provide a basis for new policies in this very complex area.

In the course of the last two and a half years the Committee has been part of an ongoing national and international reappraisal of the benefits, costs, effects and desirability of foreign direct investment and the multinational firm, and related cultural problems. Through its hearings, consultations abroad and published reports, the Select Committee has stimulated a good deal of public discussion on these issues. The Committee's work has proceeded apace with that of a number of other bodies, national and international.

## RECENT DEVELOPMENTS

Since the tabling of the Preliminary Report there have been several important developments related to the Committee's terms of reference. In June, 1972, the Government of Canada published the report of its Working Group on Foreign Investment entitled *Foreign Direct Investment in Canada*, and colloquially referred to as the "Gray Report." That report is the most comprehensive analysis of the nature and implications of foreign direct investment and the multinational firm in Canada, and may well be the leading study of the impact of direct investment on host countries in the world. It led to proposals at the federal level for legislation to review takeovers of Canadian enterprises by foreign interests, discussed below. In addition to the Gray Report in Canada, there have been a large number of official studies of foreign investment and multinational firms undertaken, especially in the United States, Europe and Australia. Among the more prestigious international organizations, the United Nations, the International Labour Office, and the Organization for Economic Co-operation and Development have conducted several international studies of these questions.

There has been a wealth of new published studies by private and professional analysts in a number of countries including Canada.

There have also been significant policy developments both in Canada and abroad. The Committee does not propose to systematically canvass the new policies and initiatives with respect to foreign investment and the multinational firm that have been taken in all countries in the world. However, it does note that in virtually all countries foreign direct investment is coming under much closer policy scrutiny than heretofore. In the United States there has been ongoing reappraisal of the effects on the U.S. economy of exports of capital and technology. In addition, there appears to be developing public and legislative pressure to scrutinize direct investment into the United States, in some ways a surprising development. There have been many new legislative and regulatory developments in Europe, Australia, and among less developed countries.

Of special interest to the Committee has been the considerable number of new policy directions which have been established in Canada with respect to issues of economic and cultural nationalism. As might be expected, it is the federal government and its agencies from which the largest number of new initiatives has originated.

The most significant development arising out of the Gray Report on Foreign Direct Investment in Canada has been the passing of the Foreign Investment Review Act which at the time of

writing is in its first months of its administration in the first phase, under which only takeovers will be covered, with the screening process being extended to some categories of new investment in the future. As the Committee notes in more detail below, that Act provides for systematic review and negotiations by the government in respect of proposed foreign takeovers of Canadian firms above a certain financial size and new investments by foreign owners or their subsidiaries in the categories which come within the purview of the Act, i.e. new investments and investments by existing foreign owned enterprises in unrelated businesses.

Successive changes in the income tax law have been designed to deal with the special problems of tax administration presented by international business enterprise, to favour Canadian owned business, especially small business, and to stimulate the channelling of Canadian savings into Canadian investment. In particular, there have been more stringent limitations on the extent to which pension funds, registered retirement savings plans and so on may invest in foreign assets without incurring tax penalties.

In the last two years the federally sponsored Canada Development Corporation has embarked on an ambitious programme of investments in enterprises in a variety of industries. The C.D.C. acquisition of a major interest in Texasgulf Incorporated attracted particularly wide public attention.

There have, in addition, been new initiatives in specific sectors. The energy crisis has led the federal government to establish a Canadian Petroleum Corporation with potentially wide powers but in its initial stages, at least, only limited objectives. It will principally be designed to secure a Canadian presence in exploration for petroleum fuels in Canada.

In other natural resource areas there have similarly been new initiatives or new indicated directions. A number of provinces have taken new measures affecting the resource industries with a view to securing a greater benefit to Canada. At the federal level the government has committed itself to substantially increasing Canadian ownership participation in new resource ventures, and the Committee itself made recommendations along these lines in its Interim Report on Natural Resources.

The new federal initiatives are in addition to federal legislation and policies relating to economic nationalism in financial sectors, transportation and communications, and certain manufacturing industries.

Among other measures which have been taken at the provincial and at the federal level are the changes in the administration of incentive programmes to industry. They have almost uniformly been altered so as to favour Canadian over foreign owned enterprises. A number of provincial governments have been instrumental in the acquisition of production facilities that were previously foreign owned, although not always for reasons primarily related to foreign ownership.

In respect of cultural nationalism there have similarly been developments. The Ontario Royal Commission on Book Publishing published a comprehensive report in 1973. The programme of recommendations of the Royal Commission is still under consideration. In the same industry the federal minister responsible for cultural affairs has proposed new programmes to aid and stimulate book publishing in Canada.

The Canadian Radio and Television Commission, which through its Canadian content regulations has attempted to significantly increase Canadian writing, performing and technical content in the recording and broadcast media, has also been engaged in developmental activities with respect to the broadcast industry and supporting cultural industries in Canada, and with respect to advertising in the Canadian media. Regulations governing community antenna television systems were proposed to improve the market for Canadian advertisers and especially local advertisers in respect of that medium. More recently, and perhaps partly as an outcome of the broad review of foreign ownership of the advertising industry in which both the Select Committee and a special committee of the Senate participated, the Canadian

Radio and Television Commission has proposed Canadian content regulations for radio and television advertising. These new regulations will have the effect of significantly limiting the use of imported creative materials in broadcast advertising. In addition, the C.R.T.C. intends to partly reduce and partly eliminate commercial sponsorship of programming of C.B.C. radio and television.

The federal government has also taken steps to assist the Canadian film industry. The Canadian Film Development Corporation, sponsored by the federal government, is the most important initiative in this area.

In Ontario there have been a number of specific developments, many of them resulting from the Committee's recommendations in preliminary and interim reports.\* Arising out of a number of broad Committee recommendations, the Government of Ontario required in 1972 that boards of directors of Ontario corporations have a majority of Canadian directors. Subsequently, the federal government indicated its intention to follow suit in its companies legislation.

There have been a variety of Ontario tax changes which improve the ability of Canadians to retain ownership and control of Canadian assets. These have included measures designed to stimulate specific sectors, such as the venture capital industry. The government introduced the Speculation Tax and changes in the Land Transfer Tax as applied to non-residents as a response to problems identified by the Select Committee in its report on foreign ownership of Ontario real estate. The Committee urges adoption of its broader programme of recommendations with respect to foreign ownership of Ontario real estate.†

In its Interim Report on Colleges and Universities in Ontario, the Committee made a number of recommendations directed primarily to the university community that would have the effect of significantly improving and strengthening the Canadian presence in our universities. The Committee understands that some Ontario post-secondary educational institutions are acting on the Committee's recommendations. In this connection the report of the Association of Universities and Colleges of Canada's Commission of Canadian Studies should be forthcoming reasonably soon.

In addition, the Committee has recently completed Interim Reports on each of Capital Markets, Natural Resources, and the Advertising Industry.

#### PROGRAMME OF WORK

The Committee's programme of work and investigations into economic nationalism has been extensive. The Committee received representation on a full spectrum of issues relating to economic nationalism, from individuals, business corporations, and other interested organizations. The Committee was fortunate in receiving the views of many expert persons including politicians, leading academic commentators, and senior government officials. Lists of those who filed briefs and who appeared before the Committee are included in the appendix. The Committee advertised and held hearings in major centres throughout Ontario, including Hamilton, Windsor, Ottawa (twice), Sudbury, Thunder Bay and Timmins, in addition to extensive hearings in Toronto. In the course of the Committee's programme it had the opportunity of visiting the facilities of some foreign owned operations in Canada and adjacent

\*The Committee has previously published the following reports (other than commissioned studies):

Preliminary Report on Economic and Cultural Nationalism, March, 1972;

Interim Report: Foreign Ownership of Ontario Real Estate, October, 1973;

Interim Report: Colleges and Universities in Ontario, November, 1973;

Interim Report: Capital Markets, Foreign Ownership and Economic Development, June, 1974;

Interim Report: Natural Resources, Foreign Ownership and Economic Development, September, 1974;

Interim Report: Advertising and the Advertising Industry, October, 1974.

†Mr. Kennedy believes this observation to be inappropriate in view of the diversity of views expressed by members of the Committee in the Interim Report on Foreign Ownership of Ontario Real Estate.

parts of the United States. The Committee visited New York City and had the benefit of consultations with senior executives of New York-based firms in resources, manufacturing, broadcasting, publishing and finance. The Committee is most grateful to the companies and organizations involved and to the Canadian Consul General in New York, Mr. Bruce Rankin and his staff for their most valuable co-operation and assistance.

#### PRACTICE AND EXPERIENCE OF OTHER JURISDICTIONS

The Committee also sought to examine the practice and experience of other jurisdictions with respect to foreign investment and the multinational firm. During a programme of consultations in Europe the Committee met with a large number of senior government officials, business executives, union leaders, and officials of international and other organizations, including the European Economic Community, in Belgium, France, Germany, Switzerland, Sweden and the United Kingdom. The Committee examined the workings of law and policy related to foreign investment and the multinational firm from the standpoint of both government and business.\* The Committee explored in some depth the approach to host country problems of many leading European corporations including many who had substantial interest in Canada and Ontario. The Committee is very grateful to the many persons in the countries it visited who gave generously of their time, insight, experience and hospitality and materially advanced the Committee's investigations of foreign investment and the multinational firm.

The Committee wishes to express its appreciation to the Department of External Affairs in Ottawa and to the Canadian Ambassadors to Belgium, the European Economic Community, France, Germany, Switzerland, and Sweden, the Canadian High Commissioner in London, the Canadian Consul General in Dusseldorf, the Canadian Consul in Stuttgart, and their staffs for the very excellent arrangements made by them on the Committee's behalf. The Government of Ontario representatives in Brussels, London and Stockholm also contributed to the Select Committee's European consultations being most worthwhile.

The Committee also made a brief visit to Quebec City for consultations with officials of the Government of Quebec, especially regarding cultural policy. The Committee is most appreciative of the co-operation and hospitality extended by the Quebec Government.

To round out its review of the practice and experience in other relevant jurisdictions, the Committee commissioned Professor William A. W. Neilson, then of Osgoode Hall Law School and visiting at Monash University, Melbourne, and now Deputy Minister of the Department of Consumer Services, Province of British Columbia, to examine and report on the regulation of foreign direct investment in Australia.† Professor Neilson's excellent study has been published separately.

#### CORPORATE BEHAVIOUR AND PUBLIC ATTITUDES

The Committee also commissioned a series of studies on Corporate Behaviour and Public Attitudes related to foreign investment. The Committee noted in its Preliminary Report that the state of information and analysis on the subject of economic nationalism was not satisfactory. The Gray Report represented a very substantial step forward in the analysis and understanding of foreign investment and the multinational firm. With a view to extending and advancing this analysis on a more industry-specific basis, the Committee commissioned Kates, Peat, Marwick & Co. to undertake a set of inter-related studies on the behaviour and performance of Canadian and foreign owned firms. Six industry sectors were selected for study: Advertising, Architecture and Engineering Consulting, the Mining Industry, the Forest Based Industries, the Auto Parts Industry and the Electronics Industry.

\*A synopsis of European practice and policy related to economic and cultural nationalism as of September, 1972, is contained in Select Committee on Economic and Cultural Nationalism, *Briefing Notes: European Consultations*, (unpublished) available in the Legislative Library.

†*The Australian Regulation of Foreign Direct Investment: Recent Experience Relevant to Canadian Policies*. October 1, 1973.

The Committee's terms of reference directed it to inquire into the status of opinion as well as information regarding economic nationalism in Ontario and Canada. In addition to the Committee's taking the pulse of public and other opinion on economic nationalism both formally in hearings and informally, the Committee decided to commission specific investigation of employee, public and community attitudes to foreign ownership. Accordingly, the study project by Kates, Peat, Marwick also included, in association with Canadian Facts Limited, examination and report on Attitudes of Community Leaders and the General Public in Four Ontario Communities, selected so as to be closely related to the industry studies, and on Employee Attitudes to foreign owned as opposed to Canadian firms in the six industry sectors studied.

The results of all these studies were brought together and reflected on in an Overview Report. All nine Kates, Peat, Marwick studies have been published\* and reactions received and taken into account by the Committee in the preparation of this Report.

#### OTHER STUDIES

As noted above the Select Committee's enquiries have taken place simultaneously with a number of other studies of foreign investment and the multinational firm, as well as issues relating to cultural nationalism. The Committee notes in particular the work of the United Nations Group of Eminent Persons on the multinational corporation; the report of the Organization for Economic Co-operation Development on the multinational corporation; the "Gray Report", *Foreign Direct Investment in Canada*; the work of the Senate Special Committee on Science Policy with the chairman and staff of which the Committee had the benefit of consultation; various studies of the Science Council of Canada; the Standing Senate Committee on Transportation and Communication in respect of its report on television and radio commercial advertising broadcast in Canada; reports of provincial legislative committees and other bodies on the question of foreign ownership of land in Canada, which studies were noted in the Select Committee's Interim Report on Foreign Ownership of Ontario Real Estate; a variety of studies undertaken in the United States, most notably by the U.S. Tariff Commission, the Department of Commerce, and the Senate Foreign Relations Sub-committee on Multinational Corporations; the work of the Committee of the Australian Senate on Economic Nationalism; and a large number of other official and unofficial studies of aspects or issues related to the Committee's enquiries.

#### THE FINAL REPORT

The present report is the Committee's concluding report to the Legislature on matters within its terms of reference. The section on economic nationalism begins with a statement of the main conclusions which the Committee reached as a result of its investigations and deliberations (Chapter Two, Findings of the Select Committee). This section is followed by a discussion and recommendations relating to three aspects of economic and cultural nationalism on which the Committee has not previously reported:

1. The Impact of Foreign Ownership on Research and Development, Technology and Innovation in Canada, (Chapter Three).

\*These studies were published by the Select Committee on Economic and Cultural Nationalism under the general title *Foreign Ownership: Corporate Behaviour and Public Attitudes* in 9 volumes:

- Foreign Ownership and the Advertising Industry;
- Foreign Ownership: Architecture and Engineering Consulting;
- Foreign Ownership and the Auto Parts Industry;
- Foreign Ownership and the Electronics Industry;
- Foreign Ownership and Forest Based Industries;
- Foreign Ownership and the Mining Industry;
- Foreign Ownership—Employee Attitudes;
- Attitudes of Community Leaders and the General Public in Four Ontario Communities; Overview Report.

2. The Foreign Investment Review Act, (Chapter Four).

3. Industrial Development Strategies, (Chapter Five).

Together with the Committee's Interim Reports on Foreign Ownership of Ontario Real Estate, Capital Markets, Natural Resources and the Advertising Industry, these comprise the Committee's conclusions and recommendations with respect to economic nationalism.

The Committee's review of cultural issues and recommendations for future action are presented in the Committee's Final Report on Cultural Nationalism.

## **CHAPTER 2**

**Findings of the Select Committee  
with Respect to Economic Nationalism**

## Contents — Chapter 2

### FINDINGS OF THE SELECT COMMITTEE WITH RESPECT TO ECONOMIC CULTURAL NATIONALISM

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## GENERAL CONCLUSIONS

1. FOREIGN DIRECT INVESTMENT AND MULTINATIONAL FIRMS HAVE MADE A SUBSTANTIAL CONTRIBUTION TO ECONOMIC DEVELOPMENT IN ONTARIO AND CANADA, ESPECIALLY IN THE POST-WAR PERIOD. DURING THESE YEARS, FOREIGN OWNERSHIP AND CONTROL OF CANADIAN INDUSTRY HAVE INCREASED TO VERY HIGH LEVELS. FOR THE FUTURE, FOREIGN DIRECT (NON-PORTFOLIO) INVESTMENT SHOULD BE DE-EMPHASIZED AS A DEVELOPMENT AND JOB CREATION STRATEGY FOR ONTARIO AND SHOULD BE REPLACED WITH CORRESPONDINGLY SUBSTANTIAL CANADIAN PARTICIPATION AND CANADIAN OWNED ECONOMIC DEVELOPMENT.

The active government encouragement of foreign ownership and investment in Canadian industry has been a main element in the industrial policies of both federal and provincial governments for many decades, especially during most of the period since the Second World War. In the minds of the public, politicians and professionals, new investment was associated with increases in employment and other benefits. Government programmes provided substantial financial and other assistance to foreign investors to establish in Canada and in Ontario. Because foreign investors were primarily from the United States, which has been for most of the last century the most dynamic economy in the world by most measures, new foreign investment into Canada and Ontario was generally seen as of high quality in world terms. Foreign investors built plants, provided jobs and taxes (including industrial assessment for municipalities and schools) and were to some important extent purchasers of Canadian products and services. Because much of the foreign investment in Canada was designed to get behind the Canadian tariff over which it was not profitable to export from the United States, foreign investment and ownership in Canada came to be associated with leading enterprises and products in the United States especially at the consumer level but also at the industrial level. Many Canadians took a great deal of pride that leading international corporations and leading U.S. enterprises and products were represented or produced in Canada, and policies to attract foreign investment were applauded. Indeed for much of the postwar period more government effort at all levels was directed to attracting foreign investment than Canadian. In part this was because it was thought inappropriate to try to attract Canadian investment away from other provinces.

During this period of substantial inward investment, Canada and Ontario experienced rapid economic growth and rapid increases in the general standard of living, to the point where on a per capita basis Ontario and Canada were among the very highest in the world in terms of income. Economic prosperity in the private sector permitted a rapid increase and expansion in social and public services.

During the last decade and a half the process of heavy reliance on foreign investments has been viewed less favourable. The package of entrepreneurship, investment decision making, technology, capital and marketing were seen to be associated with substantial outpayments in the form of dividends, interest, royalties, management and licencing fees and so on. Foreign owned firms were said to have a potential to strategically manipulate prices, profits, taxes, investments, and job allocations in ways that might be detrimental to Canada or that gave them unfair advantages over Canadian firms. The fact that so many foreign subsidiaries in Canada were merely truncated miniature replicas or branch plants rather than full-fledged enterprises pointed up some major limitations and disadvantages of heavy reliance on foreign investment for economic development. Increasing levels of ownership and especially those associated with foreign takeovers of Canadian firms inspired alarm, in some measure because of their foreignness. More and more, in part because of lively public discussion, there have been doubts in the public mind that foreign ownership and investment were likely to provide or be consistent with the levels and especially the kinds of industries,

enterprises and jobs which Canadians wanted and needed. These concerns are discussed in detail in subsequent sections, and in the Committee's Interim Reports on Capital Markets, the Advertising Industry and Natural Resources.

A number of these factors have been exaggerated by some commentators, and many are amenable to conventional regulatory treatment. But in any case, heavy reliance on foreign investment for new investment and job creation as a strategy for the future raised a number of questions. To what extent are Canadian objectives best served through substantial participation in international enterprises? To what extent can international enterprises be persuaded to tailor their operations more to meeting Canadian objectives? To what extent should Canada import rather than develop its own technological, capital markets, marketing, management and entrepreneurial capabilities and techniques? On what terms?

Shifting international circumstances are likely to be important. The development of the pulp and paper industry in the southern United States and the geographical diversification of mineral exploration on the part of companies operating in Canada—both documented in the Select Committee's studies—suggest how the response of international companies—including those which are Canada-based—to international circumstances may not be in Canada's best interests, nor compare favourably with the opportunities Canada might uncover for herself should it aggressively seek to develop human and natural resource potential at home and market opportunities abroad on its own. The heavier demand for Canadian natural resources as opposed to manufactured exports on the part of major markets shows every indication of intensifying rather than abating. Translated into jobs, there is a lower demand for job-intensive and skill-intensive Canadian manufactured products than for raw or semi-processed resources with a low labour content or value-added. With the rapid growth of various areas in the world and notably Europe and Japan, other countries with larger markets may come to be more attractive than Canada to the foreign investor. In any case, most of the leading U.S. enterprises and many of the leading offshore enterprises are already represented in Canada. There is, in addition, the strong and probably increasing prospect of home country political and policy pressure on prospective foreign investors or actual foreign owners. For example, there have been a number of indications of pressure on the automotive and auto parts industry to locate a relatively higher proportion of their production in the United States as opposed to Canada.

In combination with other economic developments and uncertainties there is the prospect or actuality of various kinds of job protectionist policies in the United States and elsewhere. The Domestic International Sales Corporation; heavier income taxation of the international activities of U.S. based multinationals; removal of foreign tax provisions formerly advantageous to the Canadian economy, in respect of foreign natural resource exploitation, for example; home country restrictions on the export of capital and technology; the deployment of non-tariff barriers, intended or not, including those in relatively newer areas such as pollution control; and other measures may make foreign companies more inclined to serve the Canadian market by way of exports rather than production, or de-emphasize investment in Canada in other ways.

In summary, the Committee has concluded that both from the standpoint of Canadian and Ontario priorities, capacities and aspirations, and having regard to apparently shifting international circumstances, foreign direct investment should be de-emphasized as a development strategy for Ontario and Canada. (As noted elsewhere, the Committee favours continued foreign portfolio (non-control) investment in the Canadian economy.) At the same time the Committee favours new policies and strategies to strengthen Canadian participation and Canadian owned economic development.

## 2. MANY FOREIGN OWNERSHIP RELATED PROBLEMS ARE IN LARGE MEASURE DUE TO CANADIAN AND INTERNATIONAL COMMERCIAL, INDUSTRIAL AND FINANCIAL POLICIES RATHER THAN FOREIGN OWNERSHIP PER SE.

**3. ISSUES OF FOREIGN INVESTMENT, FOREIGN OWNERSHIP AND THE MULTI-NATIONAL FIRM CANNOT BE TREATED AS A NARROW FOCUS PROBLEM FROM EITHER A POLICY OR A REGULATORY STANDPOINT. THEY MUST BE SEEN IN THE WIDER CONTEXT OF INDUSTRIAL AND SOCIO-ECONOMIC POLICY FRAMEWORKS.**

The Committee noted in its Preliminary Report and is the more convinced after its further extensive investigations that many of the problems said to be associated with foreign ownership and specifically many of the structural problems of Canadian industry are in some large measure the result of deliberate policy on the part of Canada and other countries, especially as expressed in tariff and other commercial policies. The Canadian tariff was specifically designed to attract production in Canada rather than exports from the United States, and this policy has been continued through most of Canada's history since Confederation. It has been—and is likely to continue to be—deliberate policy on the part of Canada's major customers to encourage Canada (as well as other countries) to export materials rather than manufactured goods. Present Canadian industrial structure has thus in large measure been determined by foreign commercial policy. These patterns have been reinforced by Canadian promotional, financial, competition, and other industrial policies. While Canadian governments claim to recognize the pervasive role of industrial policies, there has not in the Committee's view been sufficient progress in the analytical specification and identification of the workings and effects of these policies. The problems are to some extent inherent in the policies themselves and not merely associated with the response of foreign investors to them.

Issues of foreign investment and ownership cannot be seen in isolation from other economic and industrial policies. While foreign ownership of industry does pose special problems and constraints, effective economic development requires co-ordinated packages of policies not all of which will be directed especially to foreign ownership.

**EMPLOYEE AND PUBLIC ATTITUDES**

**4. EMPLOYEES AND THE PUBLIC ARE BROADLY SATISFIED—BUT WITH RESERVATIONS AND INCREASING CONCERN—with the behaviour and performance of foreign owned firms in Ontario, and with the contribution which foreign ownership has made to economic development in the province and the relatively high standard of living which most of those living in Ontario enjoy.**

The Committee's inquiries indicate general satisfaction with the present state of affairs. The public at large appears to appreciate that it has benefitted from a high standard of economic development in most parts of Ontario and a high standard of living, much of which has been associated with substantial foreign investment. Both as employees and as members of the public the people of Ontario appear to be generally satisfied with foreign-owned firms as employers, contributors to the community, producers and so on. In a number of instances foreign owned firms were perceived as equal or superior to Canadian ones in behaviour and performance.

**5. THERE IS INCREASING PUBLIC CONCERN ABOUT INCREASING LEVELS OF FOREIGN OWNERSHIP AND CONTROL IN THE ONTARIO AND CANADIAN ECONOMIES. CONTINUED HEAVY RELIANCE ON FOREIGN INVESTMENT AND INCREASING FOREIGN OWNERSHIP ARE NOT STRATEGIES WHICH THE PEOPLE OF ONTARIO FAVOUR FOR THEIR FUTURE ECONOMIC DEVELOPMENT.**

**6. PUBLIC OPINION WOULD FAVOUR POLICIES TO STRENGTHEN CANADIAN CAPABILITY AND CANADIAN OWNERSHIP.**

**7. PUBLIC OPINION WOULD FAVOUR GOVERNMENT MEASURES TO CONTROL AND REGULATE THOSE ASPECTS OF FOREIGN DIRECT INVESTMENT AND FOREIGN OWNERSHIP WHICH MAY NOT WORK TO THE GREATEST ADVANTAGE OF CANADA, ESPECIALLY IN THE NATURAL RESOURCES INDUSTRIES.**

The Committee is satisfied that public opinion does not favour continued heavy reliance on foreign investment, nor does it favour a policy of active promotion or benign neglect of ever increasing foreign ownership of industry in Ontario and Canada. While the Committee feels there would not be widespread support for absolute and across-the-board restrictions on additional foreign ownership, the Committee is satisfied there is widespread support for measures:

1. to increase Canadian ownership;
2. to screen takeovers and new direct investments from outside to ensure they are of maximum benefit to Ontario and Canada;
3. to regulate aspects of operations of foreign owned firms that are not in the best interests of Ontario and Canada;
4. to take specific action in those areas such as research and development where Canadian capability is weak or underdeveloped.

The Committee also encountered specific public concern about foreign ownership and control of resources, and about the cost of foreign ownership in terms of the annual outflow of servicing payments.

As a general observation, the Committee found substantiation in fact for employee and public concerns about foreign investment and ownership. In a few instances perceptions of behaviour of foreign and Canadian owned firms suggested differences which the Committee generally found not to exist. In the main, however, the Committee found that public concern related to those things which the Committee has concluded require further government action and attention. There appears to the Committee to be a general consensus in favour of dealing with foreign ownership and investment issues in a broader industrial policy context, i.e. in relation to economic development and employment objectives and policies.

**BEHAVIOUR AND PERFORMANCE OF FOREIGN-OWNED FIRMS**

**8. BOTH CANADIAN AND FOREIGN OWNED ENTERPRISES IN CANADA EXHIBIT VARYING BEHAVIOUR AND PERFORMANCE CHARACTERISTICS. IN MANY RESPECTS AND IN MOST INDUSTRIES FOREIGN OWNED FIRMS BEHAVE OR PERFORM IN THE SAME GENERAL MANNER AS CANADIAN OWNED FIRMS. BEHAVIOUR AND PERFORMANCE DIFFERENCES DO EXIST BUT ARE NOT NECESSARILY RELATED TO FOREIGN OWNERSHIP.**

One specific focus of the Committee's investigations and commissioned studies was the comparative behaviour and performance of foreign as opposed to Canadian owned firms. The industry studies do not generally support the proposition that behaviour and performance are systematically related to Canadian or foreign ownership. Sometimes there are significant behaviour differences which can clearly be related to ownership differences. In other cases there is no apparent connection between behaviour and ownership differences. Frequently there are substantial similarities in operating characteristics between Canadian and foreign owned firms in the same industry. This applies both in areas where firms are making a positive contribution as well as those which are more problematic.

In the advertising industry, for example, it was found that foreign owned firms are relatively autonomous and that both Canadian owned and foreign owned advertising agencies have a tendency to import advertising material for similar types of accounts. Among engineering consulting firms neither Canadian nor foreign owned enterprises have developed major export

interests, although this same result may arise for different reasons. In the auto parts industry substantial similarities were found with respect to compliance with pollution regulations, labour relations, and approach to the continental market between Canadian and foreign owned firms. In the electronics industry variations were found in the areas of research and development and development of export markets among both Canadian and foreign owned firms; ownership per se was not necessarily a factor. Relatively few differences in behaviour and performance were established in the forest-based industries. In the mining industry there were many similarities of performance and behaviour with regard to pollution control, research and development, labour relations and exports.

From these studies and its own hearings, consultations and enquiries, the Committee is satisfied that both Canadian and foreign owned enterprises in Canada exhibit varying performance characteristics. The Committee was able to detect few clear uniformities in behaviour and performance among foreign owned enterprises as a group on the one hand and Canadian owned enterprises as a group on the other. Put another way, the Committee as a general proposition was unable to find systematic behaviour and performance differences that were clearly related to ownership at the enterprise level. The Committee notes that its commissioned studies and its own inquiries furnish a number of examples of foreign-owned firms behaving as well or better than Canadian owned firms in the same industry.

#### 9. MANY OR MOST FOREIGN OWNED ENTERPRISES IN CANADA HAVE AUTONOMY IN DAY-TO-DAY DECISION-MAKING. ON THE OTHER HAND, FOREIGN OWNED SUBSIDIARIES DO NOT GENERALLY ENJOY AUTONOMY IN EXECUTIVE FUNCTIONS SUCH AS STRATEGIC PLANNING, MARKET AND PRODUCT DIVERSIFICATION, AND INVESTMENT DECISION-MAKING. THE KIND OF AUTONOMY WHICH FOREIGN OWNED FIRMS DO ENJOY IS USUALLY OF A LIMITED, RESTRICTED KIND.

A special aspect of the comparative behaviour and performance of foreign as opposed to Canadian firms is that of management autonomy. The Committee notes that the way one looks at autonomy may imply a particular kind of conception of the role which foreign owned enterprises can or should play. Those who view the multinational or international enterprise as primarily a mechanism for the efficient division of labour within the enterprise and among countries are less concerned with autonomy or subsidiary autonomy per se. The degree of autonomy accorded an enterprise and its range of development, truncation or the lack of it, etc., would be dictated by paramount considerations of efficiency.

The alternative view sees each enterprise as an organic phenomenon which in some sense should have freedom to develop to its full potential in relation to opportunities. Here autonomy for the enterprise implies some freedom from direction or constraint from the parent.

If a foreign owned subsidiary is to be looked to maximize Canadian value added, for example, rather than merely to meet headquarter's objectives, it must have freedom to develop research and development, export markets, etc.

The Committee's inquiries suggest strongly that a fair degree of management autonomy in the conduct of limited domestic (i.e. Canadian) production and marketing is a relatively common phenomenon among foreign owned enterprises, although there are exceptions. However, it is the Committee's distinct impression that freedom to develop in important areas like research and development and extra-enterprise exports, especially in competition with parents or affiliates, is the exception rather than the rule. This is manifested in the limited nature and extent of the research and development and export efforts of many foreign owned firms in Canada. Even in very large foreign owned enterprises the main functions may be merely production and domestic sales. Critical decisions involving product concept, research and development, design and engineering, and major investment decisions are not made within the Canadian enterprise. The Canadian automobile industry would appear to epitomize patterns of this kind. In the mining industry foreign controlled firms tend to be less management autonomous,

tend to import technical services and machinery more heavily, especially in initial start-up stages, and seem less likely than Canadian firms to integrate forward into advanced processing and fabrication of raw materials in Canada.

#### 10. DIFFERENT BEHAVIOUR OR PERFORMANCE BETWEEN CANADIAN AND FOREIGN OWNED FIRMS IS FREQUENTLY RELATED TO SPECIAL ADVANTAGES WHICH FOREIGN OWNED FIRMS HAVE OVER CANADIAN ENTERPRISES.

In some important respect Canadian and foreign owned firms in the same industry may or do perform differently. These differences are often due to special advantages which the foreign owned enterprise may have.

In the advertising industry foreign controlled agencies examined handled a higher proportion of products that were more heavily market-researched, often in the United States. There appears to be a tendency on the part of the Canadian controlled agencies to handle smaller rather than larger accounts resulting in higher administrative costs. There were also differences in media emphasis, with foreign owned firms tending to be more heavily represented in television advertising. All these differences appear to be related to the superior access which foreign owned agencies seemed to have to certain kinds of clients, primarily the larger foreign owned nationally advertised consumer products manufacturers.

In engineering consulting it was found that foreign controlled firms tend to dominate the large resource development projects. Through superior client access (usually associated with foreign based parent companies of subsidiaries operating in Canada) and the superior organizational, financial and technical resources of the parent operation, foreign controlled engineering construction firms are much more competitive in larger projects. In addition, Canadian controlled firms are weak or non-existent in some engineering areas. These patterns are in turn associated with substantial imports into Canada of engineering services and a very low level of exports. Foreign owned engineering firms appear to have superior organizational and project management capabilities, in large part because they have in the past had opportunities to develop in these areas whereas Canadian firms have not, even in the Canadian home market.

In auto parts the advantages of foreign owned firms are illustrated by a very high level of foreign ownership in the industry (of the order of 85%-90%). Foreign owned firms through access to corporate technology and other capability have advantages over indigenous Canadian firms. They may also have marketing advantages through their parent company's Detroit contacts with auto manufacturers or in the automotive "after market." There may be some advantages to foreign owned firms in the labour relations area because of their access to parent company specialists and more experienced bargainers.

In electronics it is apparent that access to technological developments in foreign owned parents enables some foreign controlled firms to establish new lines in certain product areas more easily than Canadian controlled firms. This is illustrated by the very low penetration of the consumer products market segment by Canadian controlled firms, especially by comparison with other areas of the electronics industry.

In the forest-based industry, foreign publisher owned paper companies were found to have more stable export markets for newsprint.

#### EXTRATERRITORIAL APPLICATION OF FOREIGN LAW AND POLICY

#### 11. THE MANAGERS OF MULTINATIONAL ENTERPRISES TAKE ADVANTAGE ON A MULTINATIONAL BASIS OF BOTH HOME AND HOST COUNTRY POLICIES WHICH TAKE THE FORM OF COMMERCIAL AND FINANCIAL INDUCEMENTS, INCLUDING TAXES, TARIFFS, SUBVENTIONS, AND FAVOURABLE REGULATIONS GOVERNING ENTERPRISES AND PRODUCTS.

From its inquiries and investigation, the Committee is satisfied that multinational enterprises and their managers take advantage on an international basis of both host and home country

policies which offer commercial and financial inducements and an attractive economic climate to enterprises. Managers do tend to have a greater familiarity with the policies and practices in jurisdictions in which they are located. Apart from that—which may be important in many individual cases—the Committee found few examples of outright discrimination against host countries.

Furthermore, it is clear that foreign owned enterprises have been highly responsive to various aspects of Canadian policy as is indicated by the present high level of foreign ownership in Canadian industry. The Canadian tariff encouraged foreign enterprises to establish facilities in Canada rather than export over a tariff wall. Foreign owned firms took generous advantage of the loan, grant, tax incentive and other programmes of Canadian governments to encourage foreign investment in the Canadian economy. Foreign owned firms similarly took advantage of favourable tax laws, in respect of takeovers for example, and more modest advantage of other incentive programmes such as those designed to stimulate research and development activity. Foreign investors found the general business climate attractive and conducive.

Foreign owned enterprises have thus clearly been reactive to Canadian policy. The Committee would only note that the greater sensitivity of foreign managers to conditions abroad may work to Canada's disadvantage.

## 12. MANAGERS OF FOREIGN OWNED SUBSIDIARIES IN CANADA ARE HIGHLY SENSITIVE AND RESPONSIVE TO FOREIGN LAWS, SUCH AS U.S ANTI-TRUST LAW, WHICH MAY SUBJECT THEM, THEIR PARENT COMPANY SUPERIORS, OR THEIR AFFILIATED ENTERPRISES TO CIVIL OR CRIMINAL PENALTIES.

In the course of the foreign ownership debate in Ontario and Canada, the question of the extra-territorial application of foreign law through the instrumentality of foreign owned subsidiaries in Canada has arisen. There has been most concern in connection with the application of the United States Trading with the Enemy Act, anti-trust law and securities law.

It is well known that the reach of the United States statutory law may include its apparent application into Canada. There are several celebrated examples.

The Canadian radio patents pool case involved a sharing of patent knowledge among Canadian subsidiaries of U.S. companies and was broken up by United States anti-trust action. A patent pool of this kind may make manufacturing in Canada specially advantageous and provide considerable product, quality and price benefits to Canadian consumers.

A second example is the splitting off of Northern Electric from Western Electric, again as a result of U.S. anti-trust enforcement. The latter case is noteworthy because of the technological and other leadership which Northern Electric has come to perform among Canadian companies.

It is also a leading example of successful repatriation to Canadian hands of an enterprise which at the time of its spinning off was not self-sufficient in technological and marketing terms but has since so become.

There were different results in the case of United States divestiture orders which led to Dupont of Canada and Canadian Industries Limited in their present form. Dupont is an American and C.I.L. a British owned subsidiary.

From its inquiries the Committee is satisfied that the United States and other countries' policy expressed in statute form is carefully taken into account by the managers of Canadian subsidiaries in Canada, often on the advice of parent company legal counsel. Frequently there are initiatives which managers of foreign owned enterprises would like to take—which may or may not be to Canada's advantage—but which U.S. law and policy does not allow. The desire of Canadian subsidiaries of foreign parents to export to Cuba furnish contemporary examples. The Committee notes that proposed federal legislation would provide for the issuing of directives to persons and companies ordering their non-compliance with foreign laws and directives. The Committee applauds legislation of this kind.

The Committee generally favours more aggressive Canadian policies to resist the application extraterritorially into Canada of foreign law and policy. Such measures might be especially desirable or important in connection with rationalization programmes in Canadian industry. More generally, much of the prospective impact of the provisions directing non-compliance with foreign laws and directives will depend on the aggressiveness of related and complementary Canadian law and policy.

#### IMPACT OF FOREIGN DIRECT INVESTMENT

##### 13. THE MOST IMPORTANT EFFECTS OF FOREIGN DIRECT INVESTMENT AND FOREIGN OWNERSHIP RELATE TO THEIR CUMULATIVE, STRUCTURAL IMPACT ON THE ECONOMY.

The Committee concluded at an early stage in its inquiries that foreign ownership was not merely a matter of behaviour comparisons or differences between Canadian and foreign owned firms. From the standpoint of both analysis and opinion, foreign ownership and investment must be subjected to other comparisons in relation to economic, social and development objectives.

In industries where the Canadian owned sector may be weak (e.g. in some areas of engineering consulting) foreign-Canadian owned comparisons may not be particularly instructive in evaluating the contribution of foreign ownership through the Ontario and Canadian economies. In other areas it may be more meaningful in policy terms to compare the structure of the foreign owned subsidiary with its parent in relation, for example, to research and development, exports, etc. In effect, foreign ownership and investment must be evaluated as to its demonstrated capacity to meet or cater to host country aspirations and objectives.

In this connection it may be noted that there are varying views of the appropriate role for the multinational firm. The proponents and some analysts of multinational business have sponsored the idea that the multinational firm may be a highly efficient twentieth or twenty-first century mechanism for accomplishing classical efficiencies through specialization among various component parts on an internationally efficient scale. A different view sees the multinational enterprise as tending to the autonomous development of each component of the enterprise with linkages among affiliates emphasizing benefits such as access to markets and technology, specialization, etc., without corresponding costs such as truncation.

By and large the multinational enterprise has not proved itself out fully in either of these ways, although there are some companies which appear to come closer than others. In its inquiries the Committee did encounter examples where manufacturing in foreign owned subsidiaries in Canada takes place on an internationally efficient scale or for world wide markets. The Committee also encountered foreign owned enterprises in which, on a selective basis, certain aspects of research and development and export market development were highly developed within the Canadian subsidiary. These appear, however, to be distinctly the exception rather than the rule. While government policies are clearly an important factor, high levels of foreign ownership have not led to either international scale and efficiency or optimum development of key functions such as research and development in Canadian industry generally. Across a large number of enterprises, truncation and scale inefficiencies associated with foreign ownership impart these characteristics in some measure to the economy as a whole and to individual industries in particular.

The Committee has accordingly concluded that the cumulative effects of foreign ownership are both important, and are in many important respects negative, even though many of the most serious cumulative impacts are not necessarily or uniformly obvious or apparent at the level of individual foreign owned enterprises. These impacts have been identified in the Gray Report and in the Select Committee's commissioned studies, as well as other published material and form the basis of the Committee's main conclusions discussed below.

**14. FOREIGN DIRECT INVESTMENT IN CANADA AND ONTARIO HAS PLACED CONSIDERABLE EMPHASIS ON THE UTILIZATION OF OUR NATURAL RESOURCES. DEVELOPMENT OF OUR SUBSTANTIAL HUMAN RESOURCES HAS NOT RECEIVED SIMILAR PRIORITY. AS A RESULT, FOREIGN OWNERSHIP AND CONTROL ARE ASSOCIATED WITH THE RELATIVE UNDERDEVELOPMENT OF THE MANUFACTURING SECTOR BY COMPARISON WITH THE NATURAL RESOURCE INDUSTRIES.**

A principal investor motivation for foreign direct investment in Canada has been to secure an assured and inexpensive supply of raw or processed materials. As illustrated in the Select Committee's studies of the forest-based and mining industries, in the Gray Report, and in numerous other studies, a good deal of foreign investment in Canadian forests, metallic and non-metallic mineral production, petroleum and natural gas, has been with a view to obtaining secure supplies of raw and semi-processed materials for further processing or consumption outside Canada. A very large proportion of this investment has originated in the United States, but latterly there has been significant investments from Europe and Japan as well. Ease of access for such investments, favourable tax treatment in Canada and abroad, the lack of export controls, low tariffs into foreign markets, and high downstream profits have led to a very substantial foreign investment in the Canadian natural resource industries.

More recently resource scarcities in home countries have been an increasingly important factor. Close to 70% of mining in Canada and Ontario is foreign owned and a very substantial natural resource bias has been introduced into the Ontario and Canadian economies through foreign demand for raw materials finding expression in substantial foreign investment and ownership of Canadian natural resources.\*

**15. FOREIGN DIRECT INVESTMENT IN MANUFACTURING IN CANADA HAS BEEN PRIMARILY AIMED AT SECURING AND PROTECTING A POSITION IN THE CANADIAN MARKET FOR FOREIGN TECHNOLOGY, BRAND NAMES, PRODUCT CONCEPTS AND MARKET POWER.**

The predominant proportion of foreign direct investment in Canadian manufacturing and services has been in effect a marketing device for foreign technology, brand names and product concepts and associated management, entrepreneurship or "distinctiveness" elements. Most of the investments in Canada by foreign owned interests in the manufacturing industries have been of this nature. At the level of both industrial and consumer goods and in the face of the relatively high protective Canadian tariff, foreign based companies have been anxious to secure a market position in Canada through foreign investment, in effect to sell their technology, marketing, managerial, and entrepreneurial capital to Canadians on an ownership (i.e. perpetual return) and control basis, as well as to provide markets for sub-assemblies and components. This range of attributes is documented in the Gray Report and illustrated in the Select Committee's commissioned studies of the auto parts and consumer electronics industries. Somewhat similar observations apply with respect to advertising agencies and engineering consulting.

It is this investment pattern which leads to the establishment in Canada of truncated miniature replica branch plants, rather than the development of full-fledged mature enterprises, with executive autonomy in investment, export market expansion, and substantial research and development facilities. It may have other negative consequences of the kind discussed below in Chapter 3. In addition, this investment pattern has led to undesirable proliferation of products and product lines, and inefficiencies of scale in plant and production runs.

**16. FOREIGN OWNERSHIP AND CANADIAN COMMERCIAL POLICY ARE ASSOCIATED WITH SUB-OPTIMAL PLANT SIZE IN CANADIAN INDUSTRY. FOREIGN OWNERSHIP MAY POSE BOTH OPPORTUNITIES AND CONSTRAINTS TO RATIONALIZATION OF CANADIAN INDUSTRIES.**

\*These issues are discussed more fully in the Select Committee's Interim Report on Natural Resources, Foreign Ownership and Economic Development.

Foreign ownership may be associated with enterprises or production runs which are too small rather than too large. The typical example of this is the so-called miniature replica effect wherein a foreign based manufacturer establishes a production facility behind the Canadian tariff, tailored to the Canadian market and operating at a scale and level of efficiency which is not optimal in international production terms. This is by no means strictly a problem of foreign ownership but is at least, in part, a problem of general Canadian policies, primarily tariff and competition policy.

Foreign ownership appears to pose constraints to rationalization except under certain conditions. In the absence of very ambitious Canadian government policy, it is unlikely that rationalization within Canada of an industry dominated by foreign owned firms could be accomplished in the face of resistance from the foreign parents and the United States anti-trust and other officials. Foreign owned firms are especially not likely to want to encourage or permit the wider market access, especially into the United States, which the Canadian subsidiary might need to operate on an internationally competitive scale. Nonetheless, the Committee did encounter exceptions in a limited number of instances.

In other circumstances, foreign ownership may facilitate rationalization under certain conditions. Herein is the lesson of the automotive agreement. Where there is common ownership of industry in both Canada and the United States it may facilitate rationalization on a continental basis, but is unlikely to facilitate the development of internationally efficient enterprises geared to anything other than closer integration with the United States enterprises and economy.

#### 17. IN MANY INSTANCES FOREIGN OWNERSHIP HAS CONTRIBUTED TO THE UNDERDEVELOPMENT OF CANADIAN INDUSTRY, EVEN WHERE THE CANADIAN MARKET IS LARGE ENOUGH TO SUPPORT AN INTERNATIONALLY COMPETITIVE INDUSTRY.

Foreign ownership also appears to be related to the size of the Canadian market. It is frequently said that the Canadian market is too small to permit production on an internationally competitive scale and undoubtedly this is true in some industries. In these cases it may well be to Canada's advantage to make selective use of foreign ownership linkages for the purpose of international rationalization if that is possible. It is apparent that to some extent these advantages have been obtained in the auto parts industry and might conceivably be obtained in some others, for example, in office products or in some areas of electronics.

In other instances the size of the Canadian market is either uncritically dismissed or seen as much smaller than it really is. There are some areas where the Canadian market measured in terms of dollars is relatively large but also relatively underdeveloped. In its inquiries and studies the Committee encountered two striking examples of this. Both the forest-based and extractive industries in Canada constitute in themselves a large market for certain kinds of engineering services and machinery. By contrast for example with Sweden, Canada has in many if not in most areas been content to import a good deal of the engineering services or machinery required for these industries, rather than to aggressively develop Canadian capability on an international scale and to export it. Even though the Canadian market for engineering services and machinery for the natural resources industries is large and could support a strong international industry, heavy net deficits are run in the international exchange of engineering services, particularly net of those exports to the developing countries, and in machinery for the forest products and mining industries. The underdevelopment of these Canadian sectors is linked to foreign ownership in the engineering consulting and machinery producing industries. This combination, as noted in the next section, has frequently led to foreign sourcing of requirements for investment in Canada rather than development of a strong indigenous industry. On the other hand, the Committee notes that Canadian public companies such as utilities may also be significant importers of machinery and equipment.

## IMPORTS AND EXPORTS

### 18. FOREIGN OWNERSHIP HAS BEEN ASSOCIATED WITH EASIER IMPORT ACCESS FOR FOREIGN HIGH SKILL, HIGH TECHNOLOGY MANUFACTURED GOODS AND SERVICES.

Import patterns associated with foreign ownership may also be viewed from a different standpoint. In its inquiries and commissioned studies the Committee identified a number of ways in which foreign ownership may provide preferred import access into Canada for foreign suppliers of goods and services, perhaps to the detriment of the comparable Canadian industry. The advertising industry study documented a so-called common account problem whereby Canadian branches of the United States based advertising agencies obtained advertising accounts of advertisers which their parent companies have. Similarly, the Committee was presented with evidence in the architecture and engineering consulting studies of foreign owned firms of architects and engineers having preferred access to Canadian construction and industrial projects where foreign owned manufacturing or mining companies were involved. Similar phenomena arose in connection with imports of engineering and machinery for resource development, including forest-products and mining. (This was also sometimes associated with concessional financing provided by the exporting country's government or central bank). In the manufacturing areas covered by the Select Committee's studies, namely auto parts and electronics, foreign ownership was found to be associated with the import of subassemblies, components and machine tools because of the close association of foreign ownership with the importation of products, concepts or designs and technology. Because the major products, (such as cars or home appliances) are designed abroad (where major purchasing is also located) by the parent company, foreign owned subsidiaries in Canada whose parents supply the manufacturer abroad may have an advantage over Canadian companies in getting the business of the manufacturer's subsidiary. These patterns of importation appeared in many cases to have inhibited the development of Canadian industry in these areas. The Committee observes that many of these import sectors are characterized by high skill labour intensity.

The Committee appreciates, of course, that international trade is a two way street, and that systematic protection of their home markets by all countries could lead to the breakdown of mutually advantageous trade and investment. The Committee's concern about Canadian industry being at a significant institutional disadvantage not related to Canadian capacity and potential is wholly consistent with the Committee's general proclivity for liberal international trade policies. But if Canada's liberal approaches to international investment and trade combine unnecessarily to Canada's disadvantage and contrary to the patterns of industrial development that would be indicated by Canadian comparative advantage and market potential, corrective action may be justified and necessary.

### 19. FOREIGN OWNERSHIP HAS TENDED TO EXPAND CANADIAN EXPORTS OF RAW AND SEMI-PROCESSED MATERIALS.

The Committee found that in some instances foreign ownership is associated with increased market access for Canadian goods. The most significant forms of increased market access through foreign ownership are found in the resource industries. The obverse of desire for security of supply of raw and semi-processed materials is markets in downstream production facilities, primarily abroad. In many cases this takes place within the same enterprise and has been the motivation for much foreign investment in Canadian resources. Thus Canadian ores, concentrates, refined products and basic shapes are shipped to processing and manufacturing facilities in other countries and especially the United States, but increasingly Europe and Japan as well. Exports of natural resources have been seen as increasingly less desirable in Canada in recent years because they do not embody sufficient Canadian value added. This shift in Canadian thinking is taking place at a time when relative supplies of various kinds of raw materials are becoming less rather than more abundant.

The Committee notes that different patterns may obtain in renewable rather than non-renewable resources. In the forest-based industries for example, there are obviously limitations to further manufacturing of lumber primarily used in home construction, or of newsprint. In other respects there are important similarities between renewable and non-renewable resource industries.

A special variant of export market access through vertical integration is illustrated in the commissioned study of the forest-based industries. A number of United States publishers have acquired newsprint production facilities in Canada. This may serve to deny independently owned Canadian producers competitive market access to foreign publishers. On the other hand, the Committee understands that it is common practice in the purchase of newsprint for publishers to contract with paper producers for the output of certain machines, achieving much the same effect.

In summary, however, the predominant export impact of foreign investment has been and is in the stimulation of substantial sales of natural resources.

**20. IN SOME INSTANCES FOREIGN OWNED MANUFACTURERS IN CANADA HAVE ACTIVELY PROMOTED THE SALE OF CANADIAN MANUFACTURED GOODS ABROAD MORE OFTEN, FOREIGN OWNERSHIP IS ASSOCIATED WITH INHIBITED OR RESTRICTED EXPORT MARKET DEVELOPMENT.**

The effect of foreign ownership on Canadian exports of manufactured goods is considerably less positive.

The Committee did encounter some specific examples of aggressive export market development, especially in third countries, on the part of foreign owned subsidiaries in Canada. For example, some well known firms in the electronics industry have had some distinctive export successes.

By far the most significant case in which foreign ownership is associated with increased market access for manufactured goods is represented by the Automotive Agreement. This agreement was feasible because the automobile manufacturers were commonly owned on both sides of the border. In turn, a very high percentage of the auto parts industry in Canada is foreign owned. Foreign ownership in this industry provides for participation and contacts in a continental production and market system. As was illustrated in the commissioned study of the auto parts industry, foreign owned part suppliers often have sales contacts at headquarters locations of automobile assemblers and that provides increased market access for Canadian production. In turn, subsidiaries under the Automotive Agreement may be able thereby to sell some of their production to the foreign parent. These same forces may, however, put Canadian owned firms at some disadvantage compared to their foreign owned counterparts.

A more common and widespread phenomenon relates to export restrictions or lack of development of export markets associated with foreign ownership. Because the motivation for foreign direct investment in Canada has often been the service of Canadian, or perhaps (and formerly) selected Commonwealth markets, the Canadian operation is generally not directed to worldwide export development. Markets in third countries are usually developed either through direct investment in those markets or by exports from other than Canadian locations. Through restrictions in technology and licensing agreements, management arrangements, brand name agreements, or management direction, Canadian subsidiaries are not likely to be aggressive in developing export markets, especially where there is a possibility of competition with affiliates.

This typically arises from parent company decisions allocating markets among various subsidiaries who are simultaneously prohibited or discouraged from selling into another subsidiary's territory.

TECHNOLOGY, MANAGEMENT AND MARKETING

21. HIGH LEVELS OF FOREIGN OWNERSHIP ARE ASSOCIATED WITH THE SUBSTANTIAL UNDERDEVELOPMENT OF CANADIAN RESEARCH AND DEVELOPMENT, TECHNOLOGICAL AND INDUSTRIAL DESIGN CAPABILITY.
22. MORE SELECTIVITY AND SOPHISTICATION IN THE IMPORTATION OF FOREIGN TECHNOLOGIES INTO CANADA COULD SIGNIFICANTLY INCREASE THE BENEFITS AND LOWER THE COSTS TO THE CANADIAN ECONOMY AND SOCIETY.

In previous periods, Canada generally and uncritically welcomed foreign investment and pointed to technology as one of the benefits which it brings. With increasing sophistication and public discussion it is recognized that technology importation does not always constitute an advantage, or that any specific technological import may not be the most advantageous. In other circumstances it may be of genuine benefit and advantage.

Foreign direct investment sometimes brings with it technologies associated with production efficiencies. The Select Committee's studies indicate examples of this as applied to auto parts and mining. The introduction into Canada via the multinational enterprise of a promising new technology may at once improve product quality, lower unit production costs and make possible increased payments to Canada labour. Alternatively, a superior technology embodied in a product may bring significant benefits to the consumer in its use. In these instances it may be of positive benefit that foreign technology not available in Canada is brought in with foreign direct investment to yield higher efficiency operations in Canada, and presumably higher returns to Canadian factors.

In other respects, it may be less certain that technology imports are to Ontario's and Canada's maximum benefit.

In the area of technology and industrial design, foreign direct investment is associated with the importation of products and product concepts. This is closely related to what has previously been identified as the market extension motivation for foreign direct investment in Canada. And indeed it is analogous processes which have led to "distinctive" consumer and other products being established in many or most countries of the world. This internationalization of product market positions is testimony to the success of international enterprises in establishing market positions on a wide geographical basis.

The international transfer of product concepts and technologies, especially if it takes place on a large scale may have significant cultural as well as economic effects, especially by contrast with alternative concepts and processes which might be possible.

Numerous examples can be found of the use of foreign direct investment to introduce into Canada consumer and other product technologies, such as in consumer and communications electronics, auto parts and so on. These may be desirable, optimal or not of prime advantage. Questions are being raised for example about the characteristics and consequences of current North American automobile concepts and technologies embodying as they do planned obsolescence, relatively large size, relatively high resource consumption, significant direct and indirect environmental impacts, and industrial psychological problems on the assembly line. Many of these properties are in part at least consequences of features of the product concept and especially its relatively greater emphasis on annual model changes and planned obsolescence that on, say, durability. The Committee notes that the demonstrated consumer acceptance of these patterns is in large measure an acquired taste developing out of marketing styles and strategies adopted by automobile manufacturers.

Similarly, many other aspects of the industry and its products such as quality, job patterns and so on are dictated by or consequent on the technology of production. There are also what might be called derivative impacts. For example, because automobile production requires

enormous quantities of steel, and because steel production generates considerable air and water pollution, high levels of automobile consumption are associated with negative environmental impacts (in addition to those arising of the use of the automobile).

In other circumstances foreign direct investment may bring with it the benefits of production and jobs and the availability of products and product designs which might not otherwise be available, or as cheaply.

Technological imports via product and product concepts may on the other hand have negative consequences because the technology involved dictates the importation of sub-assemblies or components, may stultify the development of industrial design capabilities in Canada and outlets for them, or may have negative cultural impacts.

There may also be implications arising from the need to adapt imported technologies to Canadian production requirements or feasibilities. In many instances of imported technologies it may be necessary to scale down the process to meet the needs of the Canadian market. This may often involve net increases to per unit costs, although in some cases such "development" work may be capable of exportation to other markets where there is a desire for similarly scaled down processes.

The method of technological importation may also be important. Specifically, not all technological importation must come by way of direct investment. While there are many licencing agreements in force in Canada between Canadian and foreign enterprises, Canadian policy has not actively queried whether or not foreign direct investment was a superior alternative to mandatory licencing. The licencing alternative as a device for technological importation may involve lower payments to non-residents than foreign direct investment. Licencing is less likely to be incompatible with substantial research and development in Canadian enterprises. A licencing approach would enable the Canadian economy to actively seek out the best technologies and secure them by way of licencing agreements, rather than merely opening the doors to foreign direct investment regardless of the quality of the package.

Because of the extraordinarily high levels of foreign ownership in Canadian resources and manufacturing, especially from the United States, the Canadian economy is in effect provided with an automatic technological provisioning system because of the replication in Canada on a broad scale of virtually all the technologically sophisticated United States and international oligopolies. In effect, the many foreign owned enterprises in Canada offer instant markets for technologies developed by parent companies. At the present time there is a distinct lack of geographical diversity in Canadian investment and technology sources. Where the automatic source of technological importation is the most superior in production performance and side effects terms all is well and good. In other circumstances the benefits to Canada may be more limited or negligible.

Perhaps the most important impact of heavy technological importation relates to its impact on the development of indigenous technological and research and development capability.

One aspect of this has already been identified. Technology is frequently imported in the form of engineering services and machinery. The relation of foreign ownership to the importation of engineering services and machinery, and its impact on development of indigenous Canadian capability has already been identified.

The Committee has concluded that the large-scale importation of technology via foreign investment and ownership has substantially inhibited the development of Canadian research and development capability. This is especially important if highly trained Canadians are to find suitable employment, and the Canadian economy and Canadian factors are to secure high returns to their efforts and enterprise. The Committee gave special emphasis to the research and development area in its consultations with multinational corporations.

The Committee's investigations indicate that in some instances foreign owned firms have developed or are developing a substantial research and development capability in their Canadian subsidiary. There have been a number of new products and techniques developed in Canada by both foreign owned and Canadian firms. The Committee encountered examples in the electronics, auto parts, chemicals and mining sectors. Nevertheless much of the industrial research and development in Canada is in highly selected areas and is exceptional rather than common among foreign owned enterprises.

The much more common situation is for the scale of research and development activity in foreign owned subsidiaries in Canada to be very thin in relation to the relative size of the foreign owned enterprise, and especially in relation to the human resource potential available in Canada and Ontario. On the other hand, many of the senior executives at the headquarters of multinational firms with whom the Committee met are quite persuaded that there are powerful economic rationale for the centralization of the research and development function. There is said to be a critical size which in effect constitutes a threshold below which it is uneconomic to undertake research and development. In addition it was argued before the Committee that because interdisciplinary cross-stimulation is thought to be essential for effective research, design and problem solution, geographical decentralization of even a few miles substantially weakens the effectiveness of the research and development unit.

Further, even where there is research and development within foreign owned subsidiaries, much of it may be developmental only in the sense of adaptation of process technology to a smaller scale for the Canadian market.

The Committee has concluded on the basis of its own enquiries, investigations and commissioned studies, and the many other studies related to research and development, that new measures are required if Canada is to obtain relatively greater participation in technological research and development in the industrialized world. The Committee considers it wholly appropriate to the high level of educational and skill development in Canada that this country, and especially the Province of Ontario, should be more prominent in technological production and more selective in reliance on importing technologies. The Committee has concluded that these are unlikely to happen in the absence of systematic new measures involving foreign owned enterprises, and substantial efforts in support of indigenous Canadian development and ownership.

### **23. HIGH LEVELS OF FOREIGN OWNERSHIP LIMIT THE MANAGEMENT AND ESPECIALLY TOP MANAGEMENT CAREER OPPORTUNITIES FOR CANADIANS IN CANADA.**

The Committee has concluded on the basis of its own enquiries and other Canadian studies of foreign ownership and related areas such as science policy that high levels of foreign ownership of Canadian industry limit the kind and level of management, and especially top management, career opportunities for Canadians, especially in Canada.

The Committee's investigations and commissioned studies indicated there is a relatively greater tendency to import management on the part of foreign owned as opposed to Canadian owned enterprises. The Committee found, however, that importation of senior management personnel by foreign owned firms was on a modest rather than a massive scale. Many appointments were of a temporary (e.g. career development), rather than a permanent nature having to do with general management development patterns in the multinational enterprises as a whole.

Foreign ownership may have the negative impact of offering limited career horizons in the truncated firm. An enterprise which confines itself to small scale production and sales and which is not called upon to manage high level research and development and make critical investment decisions does not require or offer the opportunity of top level management expertise. The bulk of the career opportunities offered by foreign owned enterprises in Canada would appear to be of this general sort.

In addition, there may be disruption of Canadian management and management careers as a result of foreign takeovers.

The other side of the question is the matter of opportunities for Canadians to obtain experience in other parts of multinational enterprises. Participation in foreign owned firms offers a potential for career and professional development through experience in other countries that might not otherwise be available, particularly having regard to the limited number of Canadian multinationals. It should be noted, however, that it may be difficult for Canadians to obtain working visas in the United States or other countries and that would tend to limit the opportunities for Canadians to gain experience abroad.

**24. FOREIGN OWNERSHIP IS CLOSELY ASSOCIATED WITH THE UNDERDEVELOPMENT OF THE MARKETING FUNCTION AND CAPABILITY IN CANADA THROUGH HEAVY IMPORTATION OF MARKETING TECHNIQUES AND HEAVY EXPORTS OF PRODUCTS WITH A VERY LOW MARKETING CONTENT. THE MARKETING FUNCTION INCLUDES SUCH ELEMENTS AS MARKET RESEARCH, PRODUCT DESIGN, PACKAGING, ADVERTISING AND SALES.**

A further and highly important impact of foreign ownership is its overall or cumulative effect on the development of indigenous Canadian marketing ability, the economy's ability to organize itself for successful marketing on its own at home and abroad.

Markets and marketing are elements critical to economic development and to the economic prospects of both Canada and Ontario. The marketing function, embracing marketing research, product design, assessment of market prospects for investment purposes, market and client identification, packaging, advertising, sales and client maintenance, is critical to the ability of an enterprise or an economy to organize its resources and potential for optimum exchange within its own economy or with others. Access to markets (which is to an important extent a function of the sophistication of one's marketing ability) is critical to achieving cost efficiencies in production and distribution. The marketing function ranks in importance with research and development and technology in Canada in relation to the provision of the kind of level of jobs which Canadians desire, and high level returns to Canadian economic activity.

The impact of foreign ownership on the prospects for aggressive development of exports of Canadian manufactured goods has been discussed above. The Committee concluded that foreign ownership is likely to constrain rather than facilitate or promote exports of Canadian manufacturers except in selected cases.

The Committee has also concluded that foreign ownership is closely associated with the underdevelopment of the marketing function and capability in Canada generally. Foreign ownership impacts on marketing capability in Canada in three ways.

First, foreign direct investment is often associated with the importation of product concepts, advertising, marketing style, marketing techniques and so on. This occurs, for example, in the automotive industry and in consumer electronics. In effect, a critical slice of the marketing function is imported in the product package and marketing strategy design. In many industries where this kind of marketing function is important, very high levels of foreign ownership and control obtain. The result is that the indigenous Canadian marketing function remains underdeveloped in much the same way that the development of research and development, and industrial design capability may be stultified by foreign ownership.

Second, the control of the marketing function or its obverse, purchasing, may lie abroad. This is illustrated by the auto parts industry and the Select Committee's study of auto parts. Where there is such a heavy emphasis on sourcing as opposed to selling there is less need for development of Canadian marketing ability.

Third, and perhaps most important, a very large part of Canada's exports are products with very low marketing content, primarily raw and semi-processed resources. This is in part due to their being marketed within vertically integrated international enterprises. Even where they are not, however, it is in the nature of resources and semi-processed materials that they are generally homogeneous as a product and the need for conventional marketing content is relatively low.

The Committee views with particular concern the large proportion of Canada's exports which have very low marketing content in Canada's and Ontario's exports. The Committee finds the contrast with Sweden especially striking and relevant. The Committee considers it highly unlikely that it will be possible for Canada's indigenous capability and especially its human resources to be aggressively organized and marketed both in Canada and abroad unless a much greater degree of marketing ability, in the broad sense the Committee has identified, is developed.

#### INVESTMENT BANKING AND CAPITAL MARKETS

##### 25. FOREIGN DIRECT INVESTMENT INCLUDING FOREIGN TAKEOVERS HAVE BEEN A SUBSTITUTE FOR THE DEVELOPMENT OF THE MERCHANT OR INVESTMENT BANKING AND OTHER KEY CAPITAL MARKETS FUNCTIONS IN CANADA.

As the Committee has already noted in its separate Interim Report on Capital Markets, merchant or investment banking is essentially entrepreneurial banking and performs a critical role in indigenous economic development. Foreign investment has been relied on in Canada to perform the merchant or investment banking function that is an alternative to indigenous development of this area of financial expertise.

Until very recently there was relatively little merchant bank or investment bank financing available to Canadians. The chartered banks, in part because of legislative restrictions, have generally confined themselves to traditional commercial banking, largely based on explicit or implicit security or collateral. The Canadian chartered banks have generally not emphasized prospective income stream as an alternative to balance sheet banking. By contrast, it is felt that local U.S. banks tend to be much more entrepreneurially aggressive in providing finance to their clients.

Merchant or investment banking may also involve linking up production, financial, marketing and technical capabilities where they are not sufficiently developed within any one enterprise. These kinds of functions can be critically important to the launching of new enterprises, or to bridging the gap between small and medium, or medium and large enterprises. In general the Canadian economy has relied on foreign corporations to supply the expertise and entrepreneurship, often in combination with Canadian bank capital which is often freely available to a subsidiary with a well-known foreign parent, in part because the Canadian banks have their eye on the possibility of prestigious international business. Foreign entrepreneurship is often heavily favoured over Canadian.

Investment banking is also associated with sponsoring the growth of companies through medium to large size and transition to widespread public ownership. This function too has in large measure been performed in Canada by foreign investment and ownership. A very large proportion of the growth of enterprises in Canada has taken place either by foreign owned companies or through the takeover of Canadian companies at critical points in their development by foreign sources because there were advantages to the foreign purchaser in acquiring and absorbing the Canadian company as a subsidiary. These processes have resulted in a very large number of the large companies in Canada being foreign owned.

This latter aspect in turn means that the shares of many of the medium and larger companies in Canada are not publicly traded. Because such large numbers of what would be growth or

blue-chip shares are not publicly traded, the Canadian public capital markets have remained less developed than they might otherwise have been. This, in turn, affects the ability of the Canadian ideas and enterprises to attract suitable financing in the Canadian public markets. The same processes have limited the opportunities for Canadians to invest specifically in Canadian enterprises.

#### ENTERPRISE SIZE

##### 26. BOTH IN MANY INDUSTRIES AND OVERALL, FOREIGN OWNED FIRMS ARE DISPROPORTIONATELY REPRESENTED AMONG LARGER FIRMS.

One of the structural patterns associated with foreign ownership of Canadian industry is the disproportionate representation of foreign owned firms among large sized enterprises in Canada with assets in excess of \$25 million.\* In the specific industries examined in the Select Committee's studies, foreign owned firms were similarly disproportionately represented among larger enterprises in the industry. This occurred even in those industries such as advertising, engineering consultants, electronics, and auto parts where there are relatively even distributions of small, medium and large firms, or where there are large numbers of small firms. This pattern appears to be reflective of advantages of foreign owned as opposed to Canadian firms. It has a number of implications.

First, there are implications for competition policy. This may take a variety of forms. In many industries, including many of those examined by the Committee, foreign ownership in Canada has taken the form of replication of U.S. based oligopolies. These enterprises are likely to have superior market power and impact both in Canada and the United States. As might be expected from the nature of their investment motivation as discussed above, their investments and activities in Canada are likely to be directed to preserving and enhancing their relative market positions.

A second and perhaps more important implication of the over-representation of foreign owned firms among the larger enterprises in Canada is that size may be important to the development of critical areas. This probably applies in the areas of research and development, industrial design, product concept, marketing, and capital markets development, all areas where minimum size or critical mass may be important. Because of foreign ownership in Canada, those firms which are large enough may be precisely those which are least or less inclined to develop these functions.

In other cases, and especially where the foreign owned enterprise has the opportunity of substantial importation, foreign ownership may be associated with the inability of Canadian firms to develop to a sufficient size in those areas where enterprise scale is important, as in engineering. In other instances, as noted above, foreign ownership may pose obstacles to the rationalization of plants and enterprises to more efficient size.

#### NATIONAL VS. INTERNATIONAL TRADE UNIONS

##### 27. THE MULTINATIONAL CORPORATION POSES NEW CHALLENGES TO TRADE UNIONS BECAUSE, FOR EXAMPLE, MULTINATIONAL CORPORATIONS MAY THWART UNION OBJECTIVES BY SHIFTING PRODUCTION FROM ONE COUNTRY TO ANOTHER. MANY UNION LEADERS ARE ATTEMPTING TO MEET THESE CHALLENGES THROUGH INCREASED INTERNATIONAL CO-OPERATION AMONG TRADE UNIONS. HOWEVER, LAW AND POLICY IN CANADA AND OTHER COUNTRIES MAY NOT BE CONDUCIVE TO OR MAY FRUSTRATE SUCH CO-OPERATION. THERE IS THE POTENTIAL FOR CONFLICTS OF INTEREST BETWEEN UNIONS IN DIFFERENT COUNTRIES, AND BETWEEN CANADIAN UNIONS AND THEIR U.S. AFFILIATES WHICH SHOULD BE MONITORED.

\*Statistics Canada, Corporations and Labour Unions Returns Act Report for 1970, Part 1—Corporations.

The Committee had the opportunity during its European visit to discuss with International Labour Organization representatives and representatives of major European trade unions in Sweden, Germany and Belgium the role of the international trade union in the context of multinational corporations. European trade union leaders see a closing of relations among themselves and indeed with North American unions as not only desirable but necessary in order to maintain strong bargaining positions with multinational corporations. Other European trade union officials take a more nationalistic approach.

In Canada, representation was made to the Committee on the topic of international influence on Canadian workers through the trade union movement. Internationalism was identified by some as being strictly U.S. trade unions operating in Canada. It was alleged that Canadian workers would be better off if the Canadian trade unions severed their ties with U.S. parent organizations and became not only Canadian controlled through an internal electoral process, but totally independent. It was argued before the Committee that Canadian workers belonging to trade unions were sufficient in number to be able to structurally and financially entertain total independence. However, the Committee found that the CALURA figures tendered as evidence supported this line of argument only ambiguously.

It is evident from recent major trade union meetings, such as the Canadian Labour Congress (CLC) convention and that of one of the major plumbing unions, and from meetings with Ontario Federation of Labour and CLC officials, that a move is currently underway in Canada to secure autonomy of management, representation and finance within Canada's International Trade Unions. The Committee is encouraged by this.

Without attempting to be specific the Committee believes that co-operation between trade unions in Canada and other countries in which multinational corporations operate is desirable and should be encouraged. Both trade unions and governments in Canada should monitor the effectiveness of international unions in dealing with issues where the interests of Canadian labour and those of affiliated U.S. unions conflict.

#### FOREIGN OWNERSHIP TRENDS

##### 28. IN THE ABSENCE OF NEW POLICY, FOREIGN OWNERSHIP AND CONTROL OF CANADIAN INDUSTRY IS LIKELY TO INCREASE RATHER THAN ABATE, AS MEASURED BY NUMBER OF FIRMS, ASSETS, EQUITY OR SALES.

In all the industries examined by the Select Committee's studies, and in overall terms, foreign ownership and control of Canadian industry continues to increase. In the advertising industry there has been continued modest but steady increases in the foreign controlled agency market share. In engineering consulting foreign controlled firms continue to dominate the complex resource development projects and the number of these projects is increasing. In the auto parts industry, Canadian ownership is already in a very small minority (less than 15%) position and there are few signs that Canadian ownership will increase. In electronics there has been a steady trend toward increasing foreign ownership. In the forest-based industries there have been modest increases in foreign ownership in recent years. Foreign ownership is likely to increase if future demand for forest products is high relative to supply. In the mining industry the foreign ownership appears to be relatively stable but several special factors must be borne in mind. First, there is a relatively wider opportunity for public share participation in mining enterprises located in Canada than in other industries. Changes in foreign ownership and control may well reflect modest fluctuations around the 50% foreign ownership mark in one or two large widely held resource companies. Rising resource needs relative to current availability, especially in the United States, Europe and Japan, suggests the motivation for foreign investment in mining is likely to continue to be strong in the absence of Canadian controls.

Of equal if not greater importance, the trends towards increasing rather than decreasing or abating foreign ownership are most rapid among larger firms. By some measures, foreign ownership in this category appears to be growing about twice as fast as Canadian ownership.

The Committee notes that a large proportion of the growth of foreign ownership of Canadian industry is attributable to the routine reinvestment of earnings into expanding foreign owned shareholders equity.

#### PRACTICE AND EXPERIENCE OF OTHER COUNTRIES

##### 29. ALL INDUSTRIALIZED COUNTRIES AND MANY DEVELOPING COUNTRIES ARE TAKING AN INCREASINGLY RESTRICTIVE OR SELECTIVE APPROACH TO, AND EXPANDING THEIR REGULATORY CONTROL OF, FOREIGN DIRECT INVESTMENT AND MULTINATIONAL ENTERPRISES.

As outlined in the Committee's Programme of Work, the Committee devoted considerable time and attention to examining the approaches which other countries, and primarily other developed countries, are taking to foreign direct investment and the multinational enterprise. In particular, the Committee has noted the many reports which have been prepared on these subjects, had extensive consultations with business and government officials in the United States and in six European countries, and commissioned a special study on the regulation of foreign investment in Australia.

From these enquiries and from the continuing stream of studies and reports by government international organizations and private institutions, it is apparent to the Committee that all countries are developing more comprehensive and specific policies to attempt to tailor foreign direct investments and the operations of multinational enterprises more closely to home and host country aspirations and objectives.

Accordingly, Canadian and Ontario efforts to develop appropriate policies with respect to this important area are part of a world wide effort to come to grips with the special problems posed by enterprises operating in two or more jurisdictions. There are increasing efforts at the international level to develop transnational approaches to make it more difficult for multinational enterprises to avoid regulation by locating in a less restrictive jurisdiction. Indeed, in the developing international policy environment specific policies are positively required to provide ways by which the best interests of Canada and Ontario in respect of foreign direct investment may be protected and pursued.

## **CHAPTER 3**

### **The Impact of Foreign Ownership on Research and Development, Technology and Innovation in Canada**

### **Contents — Chapter 3**

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## INTRODUCTION

Technology, and its counterparts research and development and innovation, have been of central concern in Canadian public discussion of foreign investment and the multinational enterprise. During the period of active encouragement of foreign direct investment, the technology associated with inward investment was frequently identified as one of the main benefits. Through the importation of products and their production in Canada using imported technology, Canadians came to enjoy the multifarious production and design advances of the post-war period, and Canadian workers were matched up with new and more modern tools and equipment. These manifestations of apparent Canadian participation in the front ranks of the technological age were supplemented by the conspicuous presence in Canada and especially in Ontario of affiliates of virtually all the major U.S. and many European enterprises. Canadian openness to foreign investment, technology and products was widely associated with the financial and material prosperity which Canadians enjoyed.

In time, these processes and consequences were brought under closer scrutiny. A variety of new questions were raised about the general desirability of the high levels of foreign ownership and control which had come to prevail in the Canadian economy. Consumerism and concerns about pollution and natural resource conservation, much of it emanating from the country of technological source, the United States, raised probing and sometimes embarrassing questions about the technologies which Canada had been importing, often somewhat indiscriminately. The relative underdevelopment of industrial research and development in Canada, apparently because the R & D activities of multinational enterprises tend to be centralized in headquarters countries, caused a sense of lack of full participation and national dissatisfaction.

In the course of its enquiries and deliberations on these matters the Committee confronted a number of complex issues. How great are the benefits to the Canadian economy of the substantial importation of foreign technologies? Are the costs in terms of royalty and dividend outflows too high? What different forms may technology imports take? Should the technological, capital, entrepreneurial, marketing and managerial elements of the foreign direct investment "package" be treated separately? Does Canadian patent policy cater to Canadian objectives or primarily serve to protect non-resident patent holders? Do technology imports contribute to anti-competitive industrial structure and product differentiation?

Do the cultural, job pattern, environmental and resource conservation priorities embodied in imported technologies make the best sense for Canada in terms of overall quality of life now or in the future? Has the large-scale importation of foreign technologies stifled the substantial development of Canadian research and development and innovative capacity? What advantages and disadvantages do Canada and Ontario confront in attempting to significantly strengthen their indigenous technological capacities? How might Canadians participate more substantially in the development of the technologies shaping the quality of future life and work styles in Canada? How might Canada and Ontario make intelligent choices regarding more selective and effective use of imported technologies?

### I. CANADIAN DEPENDENCE ON FOREIGN TECHNOLOGY

#### DEGREE OF CANADIAN RELIANCE ON IMPORTED TECHNOLOGY

Although there is no agreed or comprehensive way to measure the degree of Canadian reliance on technology developed abroad, it is clear that the Canadian economy and Canadian business enterprises are substantially reliant on imported technology to sustain the standard of living which the people of Ontario and Canada enjoy.

Many of the products and machines which are most important in our working and daily lives are designed and made abroad. Automobiles, computers, and most categories of aircraft are ready examples. Ninety-five percent of patents registered in Canada are owned by non-

residents and the proportion of patents owned abroad has been increasing rather than decreasing.<sup>1</sup> High levels of foreign ownership of Canadian industry furnish channels for the ready introduction into this country of new products and product lines developed by foreign parents. Many of the advanced skills which Canadian scientific and medical personnel acquire in the course of their training originate or are acquired outside Canada and especially in the United States. There are and have been, of course, significant Canadian scientific discoveries and developments. Nevertheless, the predominant pattern in most technological areas of Canadian life is the use of imported technologies. Having imported technology on a massive scale, Canada enjoys most of the features and advantages of an economy taking advantage of the spectrum of advanced modern technology. At the same time, because of the very substantial importation Canada has not herself developed sufficient capacities to even come close to being self-sufficient in technological development, even in selected areas. It is of course not suggested that she should so become in all, most, or even a substantial number of areas. It is obviously highly desirable and indeed inevitable that there may be some division of technological labour among Canada and other countries. Canada has, however, failed to develop significant technological development capacity in relation to the size and sophistication of her economy. As a result, Canada continues and will likely continue to be substantially reliant on the importation of technology to sustain productivity growth and a high standard of living, and perhaps for solutions to new challenges to modern technology such as those in the areas of the environment and transportation.

#### FORMS OF TECHNOLOGY IMPORTS

As might be expected from the complexity and close interweaving of the Canadian and U.S. economies, as well as Canada's extensive economic ties with other parts of the world, "imports" of technology may take a variety of forms.

There are three main ways in which technology is imported:

First, whenever an advanced, sophisticated product is imported, as in the case of imports like machinery and equipment, technology is in effect imported via a product. The machine or article may then be used in the production of further products or may be used in and of itself, e.g. a computer. In the simple case of the purchase of a piece of equipment the technology therein embodied is acquired and although it may depreciate and charges be made against the accounts for that capital consumption, there are no future payments for the technology.

If the article or piece of equipment is obtained by way of lease or something very close thereto such as a complex sale and credit agreement, the technology is not paid for at the outset and is continuously paid for across a period of time. In addition to leasing and credit arrangements, there may be complex service or maintenance programmes, requirements to buy raw materials or parts to feed into the equipment and other conditions which can make the apparent acquisition of the article much closer to renting of technology.

The second most common way in which technology is imported into Canada is via one or more variants of what are known as licensing agreements. These are usually invoked in the case of technologies associated with patents and the holder of the technology, in effect, rents its use to the Canadian user for a royalty or other fee. Typically there are restrictions placed on the way in which the Canadian user may deploy the technology or market products made using it. These may take the form of restrictions on exports, requirements to use or not to use certain brand names, and product standardization requirements.

As with the apparent purchase of a product or any other arrangement, a licensing agreement can be made a more or less complex package. It has frequently been proposed that all licensing agreements should be screened or at least that some substantial proportion of

<sup>1</sup>See Organization for Economic Co-operation and Development, *Reviews of National Science Policy*: Canada, Paris, 1969, pp 30-31 and Government of Canada, *Annual Reports of the Commissioner of Patents*, Ottawa.

them should be reviewed by a governmental authority, especially as regards the terms and conditions and particularly those which may have an effect on competition or regional allocation of markets and production.

Third, foreign direct investment is also a major means by which technology is transferred. In the case of foreign direct investment much of the technology transfer takes place on a basis at once more comprehensive and more informal than arms length licencing or sale between a foreign technology seller or licensor and the Canadian purchaser or user of the technology. Some of the transfers may indeed take those legal forms as between parents and subsidiaries, such as parent company licencing or sale of equipment, or acquisition of common equipment by the parent and subsidiary. In addition, there are many less formal intra-corporate channels for the transfer of technology including the design and conception of products, allocation of product lines, transfer of personnel, and the parent company making technology available to its subsidiary in the form of technical literature, support personnel and so on. In the case of foreign direct investment it is frequently very difficult to make the pure technology transfer process separable or distinguishable from managerial, entrepreneurial, marketing and the whole range of parent subsidiary relations. Similarly, the returns to technology are not necessarily captured and/or reported as directly related to technology transfer. Charges by the parent against a subsidiary for business services or other headquarters services provided, profits and transfer prices may all be used in addition to more direct royalties as devices for securing returns to parent company technology and other "software," and they routinely are. The form in which returns are secured may vary widely depending on tax considerations and other factors.

There are a great variety of other ways in which technology may be imported, many or most of them quite informal. Ideas are communicated across national frontiers and replicated in the receiving country as a result of personal visits or contacts, and the audio-visual and other media. Many persons, enterprises and countries are engaged in systematically monitoring or searching for technological developments in other countries with a view to duplicating them on their own. This may involve efforts to get technology cheaply, such as by buying the product, stripping it down and attempting to design, process, or manufacture it. Less frequently, industrial espionage may be employed as a technology transfer technique.

Of special note is the fact that a great deal of technological development takes place in public or quasi-public institutions such as governmental research institutes and universities. Technologies developed as a result of such research are generally more widely available than those developed within private industrial enterprise, often involve discovery of a basic technology which spans a whole set of future patentable ideas, and generally are widely disseminated in the very large number of learned and scientific publications which devote themselves to articles reporting on new developments. Institutional factors and career imperatives provide important stimuli to the publication of technologies developed within these scientific communities. Because Canadian institutions operate in one or both of two languages widely spoken among advanced countries, developments reported in learned journals are routinely transmitted to Canada.

Technologies may also be imported in the form of services. As the Committee noted in its commissioned studies of the architecture, engineering services, and advertising industries, Canada imports significant quantities of such services. Especially in the case of engineering, importing of services also may involve importing technologies not available in Canada.

A much less common but frequently very important mode of technology transfer is that associated with the transfer or immigration of certain highly skilled and highly specialized individuals. The most celebrated example of this centres around the immigration of German scientists, especially to the United States, after the Second World War.

#### CONTINUOUS IMPORTATION OF TECHNOLOGY

An additional factor of considerable importance in relation to Canada's importation of and reliance on foreign technologies, is the fact that there are in place institutional mechanisms providing for the very rapid and sometimes virtually automatic transfer into Canada of new technologies and especially of those originating in the United States.

Two main aspects of this should be identified.

The most important is the substantial and predominant presence in Canada of subsidiaries of U.S. based and other foreign parents. Because Canadian industry is characterized by high levels of foreign ownership and control, especially in manufacturing and even more so in those industries within manufacturing which are technology intensive, there is a considerable automaticity to the transfer of technology into Canada. New products and product concepts, and to a lesser extent new process technologies, tend to be quickly replicated in the Canadian subsidiary. This is aided by Canada's capacity to utilize technology because of the high level of skills and technical training in the Canadian labour force, the advanced institutional development of the country, and commonalities in language, customs and commercial practices. A major imperative of the home operations of multinational enterprises is the development of new product, production and marketing ideas, and earning a return on them by disseminating the use of the new techniques among subsidiaries and affiliates. Canada has obviously and frequently been a major outlet for much of this kind of new technology. The Committee notes that foreign direct investment and the multinational corporation may be highly effective technology transfer mechanisms in many circumstances and should be encouraged for that purpose. In other cases, as the Committee notes below, the appropriateness of these mechanisms may be more questionable.

The second main factor leading to the ready importation into Canada of foreign technology is the substantial integration of the Canadian with the United States (and to a lesser extent British and European) scientific and educational establishment. Canadian universities draw heavily on foreign universities for the training of faculty,<sup>2</sup> and for a large proportion of the professional literature used in teaching and research. Scientific and technical personnel in private and governmental institutions are similarly in touch with their associates and counterparts in universities, government agencies and other institutions in Canada and abroad. Individually and together these processes lead to a good deal of virtually automatic transfer of "technologies" into Canada.

#### EDUCATION AND TECHNOLOGY

The capacity of the country to absorb, utilize effectively, or develop technology is very closely related to its educational levels. Canada's and especially Ontario's demonstrated capacity to absorb and apply modern technology is in large measure a result of the excellence of its secondary and post-secondary educational systems and their wide availability to our citizens. The federal and provincial governments have made a substantial investment in publicly financed education of the populace who by world standards have exceedingly high skill levels. There is no question that this substantial investment in human capital is a directly supporting factor in our high standard of living.

But especially in its relation to imported technology an appraisal of returns to educational investment does not end there. While Canada has to some extent obtained the benefits of the marriage of foreign technology and Canadian skill levels, so have the owners of foreign technology who could not have earned as high returns but for the availability in Canada of highly skilled and highly trained technical and other personnel.

The question of the appropriate division of returns between foreign owners of technology and the Canadian and Ontario investment in education is discussed further below.

<sup>2</sup>Select Committee on Economic and Cultural Nationalism, Interim Report: *Colleges and Universities in Ontario*, Toronto, Queen's Printer, 1973.

On the other hand, there is the question of whether large-scale importations of technology are compatible with providing enough of the right kinds of jobs for highly trained Canadian graduates. If, as the Committee notes below, importation of technologies pre-empts R & D activity in Canada, Canadians with advanced research and technical skills may be frustrated in attempting to find suitable careers in Canada.

#### ADVANTAGES OF TECHNOLOGY IMPORTS

There have been and are considerable advantages to Canada in importing technology, and in importing it on such a large scale.

First, imported technology has provided the people of Ontario and Canada both as producers and consumers with products and processes they would not otherwise have had. Virtually no aspect of our working or daily lives is not significantly attributable to foreign technologies. The clothes we wear, the houses in which we live, the food on our table, private and public transportation, the communications media, the equipment we use in our factories and offices—all these and others would be very different and very much less satisfactory were it not for foreign technologies.

Second, and equally important, foreign technologies have made it possible for the Canadian and especially the Ontario economy to achieve the productivity levels on which our high standard of living is founded. If we did not enjoy the high standard of living which foreign technologies have made possible, Canadians would not have the wherewithal to have, use and enjoy the many beneficial products and services available in the modern world. In most if not all respects the people of Ontario and Canada are very privileged among peoples of the world.

There have also been indirect benefits to Canada from her substantial reliance on imported as opposed to home grown technologies. For Canada, not being itself a very large country, having technologies which are internationally compatible especially with large markets is a benefit to Canada both domestically and in her international trade and investment. It facilitates the introduction into Canada of new technologies and products. If significant adaptations were required each time it was desired to bring a new product or process into Canada, the costs to the Canadian economy would be that much higher. A striking example which the Committee encountered of the considerable problems which can arise where different countries employ different standards or technologies in the same industry is illustrated by the matter of varying truck axle sizes among the countries of the European Economic Community. The fact that a number of countries have been unable to agree on common standards for truck axles within the Common Market has impeded the development of community-wide transportation policy and planning generally. The reason agreement has been so difficult to achieve relates to the considerable adjustment costs that would be imposed on at least some countries by the adoption of common standards. The trucking industry, truck manufacturers and their suppliers, and governments because of their responsibility for the construction and maintenance of roads all have a major stake in these issues.

#### COSTS OF TECHNOLOGY IMPORTS

While large scale importations of technology have provided considerable benefits to Canada and Ontario they have also imposed considerable costs. The costs associated with foreign technology take four main forms:

1. Direct financial payments for the use of foreign technology.
2. "Opportunity costs" to Canada in the form of high-skill job opportunities, financial returns and other benefits pre-empted or foregone because of technology imports.
3. Truncation of the economy because of underdevelopment of or restricted Canadian research and development, export and other capacity.

4. Costs imposed on the Canadian economy and society because of negative aspects of imported technology in such areas as environmental preservation or resource conservation.

It is difficult to make a comprehensive estimate of the actual financial costs to the Canadian economy from the importation and use of foreign technologies. As noted, Canada imports a great deal of technology in the form of products. The Committee is not aware of any reliable estimates of the true technological content of manufactured imports. It is similarly very difficult to calculate the costs attributable to novel technological content in imported technical services. Figures are available for royalty payments abroad associated with licencing and other agreements, but these constitute only a portion of the total out-payments associated with the use of foreign technology by Canadian enterprises. Payments for business services, dividend out-payments, management fees and other charges include payments not specifically attributable to technology. At the very least it is certain that Canada makes financially substantial payments—of the order of several billion dollars a year—for the use of foreign technologies.

It is not known whether the benefits which Canada obtains exceed or are exceeded by these financial costs. But the Committee has concluded that the level of out-payments for foreign technology is sufficiently large to justify much more careful scrutiny of the true benefits and costs. To that end the Committee has already recommended in its Interim Report on Capital Markets that the Government of Ontario sponsor an ongoing study of the actual benefits and costs of foreign direct investment in Ontario. A major part of that recommended study would involve analysis of the benefits and costs of the technology associated with foreign direct investment.

A particular aspect of the distribution of benefits between the Canadian economy and foreign owners of technology is whether a sufficient proportion of the overall returns accrue to Canada from her investment in human capital as opposed to foreign owners of technology exploiting it in combination with Canadian skilled labour.

A second special but nonetheless major question in relation to the benefits and costs of foreign technology relates to the consequences of the technology only being available with associated marketing or investment or other package deals which may not be to Canada's greatest advantage. This frequently but not exclusively arises in connection with direct investments. Canada might want the technology but not the technology in combination with the foreign owned enterprise, or without the brand name, or with a view to modifying the technology in ways the foreign owner did not approve of. If, in turn, Canada is forced to pay directly or indirectly for elements or services not required, the benefits may be lower while the costs are likely to be higher.

Among questions related to opportunity costs is the matter of whether our substantial investment in human capital should be so heavily allocated to the application rather than the development of technology. The development of new technology is conceptually the development of a capital good, one on which a stream of future returns may be expected to be earned. The question arises whether higher returns to individuals and to the Canadian economic system would likely result from a higher proportion of technically trained Canadians being allocated to developing new indigenous technology rather than applying technologies developed abroad. The practical implications of this rather abstract approach are perhaps illustrated by considering the fact that the price of a very large proportion of the goods purchased and sold in the non-communist world include payments in some form for the use of American technology in producing or distributing the goods. This reflects the remarkable pervasiveness of U.S. technology. In effect, each time a product is sold, American owners of technology earn a return to resources allocated and funds spent in the past for research, development and invention.

In addition, there are important "non-income" benefits that may be derived from ongoing technological development. Similarly, these may be foregone if technological development is pre-empted by large-scale importation of technology. There are important personal and national satisfactions to be derived from participation in the development of new technologies. The

form which new technologies or products take may affect the quality of life in ways not readily expressed in monetary terms. These include, for example, impact on working conditions, job satisfaction, the environment, safety, and other matters.

#### IMPACT ON RESEARCH AND DEVELOPMENT

A number of recent studies, and especially the Gray Report,<sup>3</sup> and major studies by or for the Science Council of Canada,<sup>4</sup> the Economic Council of Canada,<sup>5</sup> and the Organization for Economic Co-operation and Development,<sup>6</sup> have pointed to the very low levels of industrial research and development activity in Canada, by comparison with other industrialized countries, and especially by comparison with income, education and skill levels obtaining in the Canadian economy. *From its enquiries the Committee has concluded that foreign ownership is a major factor in the underdevelopment of Canadian industrial R & D capacity.*

The severe impact of foreign ownership on indigenous technological development arises because a predominant proportion of Canadian firms in technology-intensive industries are themselves parts of larger enterprises whose research and development facilities are largely centralized in headquarters countries abroad.

Roughly 90 per cent of all research and development activity in industrialized countries takes place in manufacturing industries.<sup>7</sup> About 70 per cent of Canadian manufacturing is foreign-controlled.<sup>8</sup> But much higher percentages of foreign-control of Canadian industry obtain in technology-intensive industries, such as chemicals, pharmaceuticals, aerospace, computers, and electronics.<sup>9</sup> In addition, manufacturing enterprises must generally be of relatively large size to be able to sustain an economic R & D facility. Foreign owned firms constitute a significantly larger proportion of such firms of larger size than of manufacturing enterprises overall.<sup>10</sup> There is accordingly even less opportunity for development of indigenous Canadian R & D strength.

To suggest that all foreign-owned enterprises deny significant research and development activity to their Canadian subsidiaries is, of course, an over-generalization. Such a line of characterization obscures the variety of circumstances that characterize the operations and relations of foreign parents and their Canadian subsidiaries. Some important new products and technological innovations do originate in foreign-owned subsidiaries in Canada, and are accepted or appropriated elsewhere within the multinational enterprises' production and marketing network. Sometimes major innovation on the part of the Canadian subsidiary is actively encouraged and perhaps significant research and development resources allocated to the Canadian subsidiary.

<sup>3</sup>Government of Canada, *Foreign Direct Investment in Canada*, Ottawa, 1972.

<sup>4</sup>See the following Science Council publications in particular:

R. W. Jackson, D. W. Henderson and B. Leung, *Background Studies in Science Policy: Projections of R & D Manpower and Expenditure*, Special Study No. 6, 1970.

Andrew H. Wilson, *Background to Invention*, Special Study No. 11, 1970.

C. B. Lewis, *A Survey of Canadian Activity in Transportation R & D*, Special Study No. 17, May 1971.

Andrew H. Wilson, *Research Councils in the Provinces: A Canadian Resource*, Special Study No. 19, June 1971.

Frank Kelly, *Prospects for Scientists and Engineers in Canada*, Special Study No. 20, March 1971.

P. Kruus, *Basic Research*, Special Study No. 21, December 1971.

Arthur J. Cordell, *The Multinational Firm, Foreign Direct Investment, and Canadian Science Policy*, Special Study No. 22, December 1971.

Pierre L. Bourgault, *Innovation and Structure of Canadian Industry*, Special Study No. 23, October 1972.

Andrew H. Wilson, *Governments and Innovation*, Special Study No. 26, April 1973.

M. Gibbons and R. Voyer, *A Technology Assessment System, A Case Study of East Coast Offshore Petroleum Exploration*, Background Study No. 30, March 1974.

<sup>5</sup>See O. J. Firestone, *Economic Implications of Patents*, University of Ottawa Press, Ottawa, 1971 and Economic Council of Canada, *Report on Intellectual and Industrial Property*, Ottawa, 1971.

<sup>6</sup>op. cit., Footnote 1.

<sup>7</sup>Ibid. and see the Science Council Studies by Andrew Wilson and Pierre Bourgault cited in Footnote 4.

<sup>8</sup>See Statistics Canada, *Reports under the Corporations and Labour Unions Returns Set*, 1970 and 1971. Selected data is presented in the Statistical Appendix to this Report.

<sup>9</sup>Ibid.

<sup>10</sup>Ibid.

But foreign-owned subsidiaries of the latter sort are distinctly the exception rather than the rule. The Committee encountered substantial resistance to the idea that R & D activities ought to be significantly decentralized into Canada. In more than one instance the Committee could not bring itself to be persuaded by senior and technical multinational management arguments as to to the alleged unsoundness of locating significant R & D facilities in Canada. On occasion, senior foreign-based management took the position that Canada lacked the special intellectual stimulus and attraction of some European and United States centres. The Committee realizes that the lack of international scale R & D in Canada, especially within multinational enterprises, is to some extent self-perpetuating. But the Committee was left with the impression that the substantial scientific strengths of Canadian universities and centres of research, and of the highly conducive and stimulating environment which exists in major Canadian urban areas for scientific research, are not as widely and favourably known in international industrial circles as the merit of the former would imply or justify.

A further reason systematically advanced before the Committee in support of the claimed imperative need to centralize R & D facilities was the notion that geographical fragmentation of R & D facilities would weaken essential contact, coordination and cross-stimulation among research and design personnel, especially of an informal kind (e.g. via contact in the company cafeteria). The Committee is satisfied that intellectual cross-fertilization among technical personnel may indeed be an important factor. In combination with the high threshold or minimum "critical mass" for a successful R & D facility the Committee recognizes that from the enterprise or headquarters' standpoint, centralization of R & D facilities in the home country may be the logical direction to follow. There may also be other factors such as the need for centralization to achieve economic utilization of highly specialized equipment; the key importance of new technological "percolation" upwards in terms of new products to the ability of the enterprise as a whole to continue, thrive and prosper; desire of headquarters management especially in closely related areas (marketing, production) to keep in close touch with technological developments, and to have ready access to the R & D personnel and facilities for technical advice or design and product modifications for marketing or production reasons. These may all militate in favour of centralizing R & D in the headquarters country. There may also be apprehension about locating a 'strategic' R & D function in a 'foreign' country.

On the basis of its enquiries and investigations, the Committee is not satisfied that these considerations provide systematic justification for the general failure of foreign-owned enterprises to locate significant R & D facilities in Canada and/or to provide for substantial or pro rata participation of the Canadian subsidiary or affiliate in strategic technological development within the international enterprise as a whole. The Committee's conclusion in this regard is bolstered by the demonstrated success of some foreign owned and/or multinational enterprises in locating significant R & D (and related production and marketing) in Canada.

In a number of instances the very large size of corporate R & D facilities seemed to the Committee to go far beyond the minimum or threshold size as regards use of specialized equipment and intellectual cross-fertilization. Research facilities of several thousand persons would appear to have the potential for undermining cross-fertilization processes rather than enhancing them by comparison with R & D facilities of more modest but still substantial size.

The greater bureaucratization, impersonality, mere physical size, and lesser achievable informality of an R & D establishment of, say, 3,000 people may be significantly less intellectually and technically stimulating and productive than several smaller units appropriately organized.

As regards communications, between, for example, headquarters and R & D staff, the Committee is similarly not persuaded. Most Canadian cities and centres are as conveniently located with respect to United States centres in terms of transportation and communications as other United States centres, in some cases more so. Especially where there is careful, appropriate and advance corporate planning in the location of facilities, the Committee is not convinced

that Canadian locations for major R & D facilities should be disadvantageous. In this regard the Committee notes widespread geographical decentralization of R & D facilities within the United States and Europe.

More than that, the Committee is satisfied from its enquiries, hearings and studies that change can be feasibly and constructively introduced. In the course of its consultations in Canada and abroad the Committee had the benefit of receiving views, facts and advice from senior officials in a range of multinational enterprises, and specifically from executives charged with responsibilities for research and development. These included conversations with executives of both headquarters and Canadian subsidiaries. The success of some companies in productively locating substantial research and development facilities in Canada and in widely dispersed centres in their own countries is testimony to the feasibility at least on a selective basis of multinational enterprises taking advantage of the high levels of research and technical competence available in the Canadian economy, and giving Canada a 'fair share' of the ongoing R & D and technological development within the multinational enterprise.

This is not to suggest that it is feasible or desirable for there to be substantial Canadian participation or leadership in R & D and technological developments in all or even most industries. The problem is that the degree and kind of Canadian participation is insubstantial by comparison with what would seem both desirable and possible. A number of aspects of this were identified in the Committee's commissioned studies and are amply documented in studies referred to above and elsewhere.

A special class of underdevelopment of Canadian technological capacity apparently associated at least in part with foreign ownership and control was described in the Committee's commissioned studies of the forest-based, mining and engineering services industries.

As noted, not all new industrial technologies are imported via licensing agreements or parent-subsidiary links. Some may be embodied in imported products or services. The Committee positively favours the international exchange of goods and services between Canada and other countries. At the same time the Committee strongly favours the development of Canadian technological and other strength in those areas where Canada has the manpower, the market, the resource and other potential; and especially in those areas where there ought to be special promise for development of a large, technologically sophisticated industry in Canada. So the Committee was especially concerned about evidence developed in its commissioned studies of lack of independent development in Canada of the pulp and paper and mining machinery and related engineering and technical services industries. Instead of Canadian enterprises in these sectors being a major feature of the world scene in these areas, much of the technology, products and related services were imported. (It may be noted that in many areas of the extractive industries Canada offers a sufficiently large market because of the size of her natural resources sectors to provide a basis for internationally competitive extractive industry engineering and machinery sectors. A similar situation obtains in pulp and paper). The Committee found that underdevelopment of Canadian industry in these areas, and substantial imports especially of engineering services which one would have thought would be available in Canada, were associated with foreign ownership of natural resource industries, and partly reinforced by parallel foreign direct investment in those supporting industries. Foreign suppliers with whom foreign parents were used to dealing developed preferential access to Canadian projects over independent Canadian suppliers where the investment in Canada was foreign owned.

#### JOB OPPORTUNITIES IN RESEARCH AND DEVELOPMENT

An especially important aspect of the impact of foreign investment, the multinational enterprise and the importation of foreign technology, is its impact on the kinds and levels of scientific, technical and design jobs available to Canadians. Some aspects of this have already been noted above. The large-scale importation of foreign technologies, and the concentration of research and development facilities in home country research centres, means that while Canadians are heavy users of foreign technologies, as workers and producers and as consumers, they participate

to only a relatively minor extent in the conception, refinement and design of technology and its application. In other words, only a small number of Canadians—as a percentage of the labour force, or by relative comparison with the United States as between Canadian affiliates and their foreign parents—are employed in the development of a major portion of the technologies used and applied in Canada. The consequences of this are strikingly illustrated by the automobile industry, to which the Committee had the benefit of first hand exposure on these and closely related issues. At the present time, virtually all the research and development efforts of the major automobile companies are geographically concentrated in the United States. Their R & D activities in Canada are essentially peripheral. Accordingly, if young Canadian scientists and engineers desire careers in mainstream research and development in the automobile industry, it would be futile to try to do so in Canada.

This situation, spread as it is across a large number of the larger manufacturing enterprises in Canada means that there are proportionally very few opportunities for Canadians to participate in their own country in researching, developing and shaping the technologies for the present and future.

This means that potentially exciting career paths are severely limited or, in many individual cases, cut off entirely. It means that this avenue is largely unavailable to capitalize on and recoup the substantial public and private investment in advanced technical education and supporting facilities, although as noted, the benefits of education may be as substantially secured in the application of imported technologies as in developing new ones. It means that instead of Canadian individuals and enterprises, and the Canadian economy, securing substantial returns to technologies developed domestically, Canadian producers and consumers' pockets are tapped to pay royalties and other returns to foreign producers and owners of technology. Similarly, Canada cannot recoup returns to secondary "spin-off" technologies and economies. It means that Canadians have not participated and do not participate in technological development to the extent that would be indicated by the high educational and general economic levels that obtain in Canada, or to the extent that Canadians individually and collectively might have desired and been technically and entrepreneurially equipped to do. This latter factor may be of special importance in relation to the nature of the technologies themselves or the resources allocated among various technological research projects. Canadian priorities or distinctiveness may not be reflected in research and development efforts, even where the foreign technologies have inappropriate features or are clearly inferior. For example, it is important that Canadians have little input into decisions that continue to emphasize individual over mass transit in R & D, or to allocate higher or lower priorities to conservation or environmental objectives. It is in precisely these areas that governments are attempting to chart new directions, both in Canada and the United States.

#### IMPORTED TECHNOLOGY AND COMPETITION IN CANADA

Foreign direct investment and the importation of technology, in association with inappropriate Canadian industrial policies have weakened the pressures on economic inefficiencies and mal-distribution of economic returns within the Canadian economy. There are three main elements in this result.

The first is the relation between the importation of technology and Canadian patent policy. The theory behind patents has two main elements. The first is to provide an incentive to invention and innovation by protecting the ability of the inventor to secure returns to his investment. Holders of patents are thereby entitled to insist on others not using their technology unless suitable financial arrangements have been made. The other aspect is applied in the word 'patent' i.e. the opening of the invention to public knowledge. When patents are taken out they become part of a public record which anyone is free to consult. After the period of patent protection expires (17 years in Canada) the invention is in the public domain. The object in making these public during the period of patent protection is not only in connection with the administration of the patent system i.e. in distinguishing genuinely new inventions from those

which are not. By providing a system which makes the nature of new inventions available for public dissemination it is hoped that innovations and invention will be stimulated and that new technologies will be more widely applied thereby adding to the economic growth and development in the country.

The Committee has concluded that Canada's patent system is not contributing to the achievement of these objectives to the extent that it might.<sup>11</sup> In part this is a reflection of the limitations within the patent system itself. In particular there are some technologies which are kept as corporate secrets. This may be because the technology is of a nature that is difficult to patent, because it cannot be readily transferred around the economic system except by transferring the personnel who carry around the technology in their brains. Or it may be because of a desire on the part of any number of corporations to keep secret technologies to themselves as a device to protect market positions for their products or for other reasons.

The Canadian patent system has not demonstrated success in stimulating inventions in Canada or as a mechanism for the wide, effective and efficient dissemination of technology in the Canadian economy. Rather it appears to have primarily served to protect foreign owners of patents from their use in Canada except under arrangements which are satisfactory to the owners. There is insufficient provision for compulsory licencing and little use has been made of this technique in Canada. In other words, the Canadian patent system and related intellectual protection<sup>12</sup> primarily served to provide protection in Canada to foreign technology. This is not to suggest that it is necessarily undesirable that foreign technology be protected by patents in Canada. Rather, and as with so many issues with which the Committee has dealt, it is more a matter of proportions. The patent protection afforded foreign technology has been just one more of a relatively large number of important elements that have enabled foreign enterprises, technologies, products and marketing styles and so on, to dominate the Canadian economy. In this case it has been to Canada's overall disadvantage in terms of reduced competition in the economy and the underdevelopment of indigenous technological capacity.

This is also, of course, associated with the two other main uncompetitive elements and structures which have been introduced into the Canadian economy and which are associated with foreign ownership of Canadian industry. The obvious and substantial replication of the United States or international oligopolies in Canada to a significant extent is backed up by and finds expression in the large number of Canadian patents owned by non-residents and the patent protection thereby provided them. Market imperfections or uncompetitive elements taking the form of product differentiation is also highly related to technology.

Even though much product differentiation may be substantially attributable to design, packaging, advertising or other marketing elements, technology is frequently a critical ingredient. For example, the design features which make one automobile distinctive from another involve both engineering technologies and elements of what may be termed "marketing aesthetics."

These factors are in turn associated with both benefits and costs to the Canadian economy. There is no question that the high level standard of living enjoyed by Canadians is a result of foreign enterprises, products, and technology and marketing expertise having been available to the Canadian economy. At the same time, it is apparent that in virtually all respects the state of the competitive environment in Canada leaves a good deal to be desired in terms of industries, enterprises, products and selling techniques. The protected environment in Canada is associated with economic inefficiencies, higher prices paid by Canadian consumers, and, to an important extent, unnecessarily high prices paid to non-residents for technology and related services. It should be noted, as the Committee has emphasized elsewhere, that this arises as much or more from inappropriate policy responses on Canada's part as from foreign ownership and control per se.

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<sup>11</sup>See Firestone, *op. cit.*

<sup>12</sup>It may be noted that Canadian legislation governing intellectual property is heavily influenced by obligations which Canada has assumed under international patent, copyright and trade mark agreements.

## TECHNOLOGY AND EXPORTS

Canada depends for her economic health and growth on international trade. About 25% of Canada's gross national product arises from the sale of goods and services abroad. Canada and Ontario have been vigorously attempting to expand Canadian exports of manufactured goods and decrease Canada's reliance on primary products export as a source of foreign exchange to balance imports. The manufacturing industries offer greater promise in terms of providing jobs requiring higher skills and paying better wages. In addition, in the case of many manufacturing industries in Canada, the Canadian market is not large enough to support the level of production needed to achieve maximum scale efficiencies. Expansion of manufacturing exports is thus in these several respects critically important to the economic development and growth aspirations of both Ontario and Canada.

Although forms of technology imports are by no means the only factors inhibiting the more rapid development of Canadian manufactured exports, they are frequently a factor restricting or preventing Canada from selling certain products abroad and thereby preventing Canadian manufacturing industries from expanding to an internationally competitive size. Especially where a multinational enterprise is involved, licensing, brand name agreements, management direction or other devices may restrict the use by a Canadian subsidiary or enterprise of a foreign technology to production in Canada or for only very limited export purposes. Within multinational enterprises competition in product markets is frequently discouraged, rather than encouraged, through the device of allocating product market territories.

Where technologies are imported but the opportunities for their use circumscribed, the benefits to Canada are considerably lower. If technologies are developed in Canada but not applied in Canadian production for world markets because the innovation is appropriated by, and used elsewhere in a multinational enterprise, Canada does not obtain optimal benefits.

## II. THE WIDER IMPACT OF TECHNOLOGY AND ITS IMPORTATION

### CULTURAL, RESOURCE AND ENVIRONMENTAL IMPACTS OF TECHNOLOGY

After several years of growth and prestige, technology has more recently come in for probing and sometimes strident criticism. Production processes with major adverse environmental impacts, design concepts such as planned obsolescence with high unit consumption of natural resources, and products which were unsafe or with a short useful life due to shoddy design or manufacture severely tarnished the gleam and public acceptance of modern technologies. In the view of some public commentators, Canadian mass importation of American technologies, and their concomitants, design and marketing styles, amounted to the wanton importation of a "life-style" which was, over time, essentially corrupt. Reinforced by skepticism about or philosophical bias against "capitalism" as an appropriate technology of organizing economic activity, this line of critique saw in the apparent deterioration of and strains in American cities and social fabric a bleak future for Canada if she continued on her apparent and confirmed course.

Although the Committee would itself fall well short of endorsing this characterization, it does adopt the view that technologies generally have been demonstrated to have effects on the environment, on culture, or working conditions and on resource conservation which ought to be more carefully assessed in the future than they have in the past.

In the Canadian case, many of the technologies and therefore many of the impacts on the quality of life are imported via the mechanisms previously identified.

Technology, especially in the specifics of its design aspects may have an important cultural aspect in both the narrower and broader meaning of culture. An obvious cultural aspect to "technology" is in the area of industrial design, especially in materials design, but also in styling. That this may be distinctive is illustrated by the varieties of European (e.g. Scandinavian) or

Asian design. And while it may be objected that distinctively designed furniture or housewares or clothing may embody little that is new in technology of production or use, there may indeed be critical new technologies.

For example, miracle fabrics or the greater compatibility of the "cleaner" more straightforward lines of modern styling with volume or low cost production are both essentially technological—as well as having a cultural aspect. In the case of automobiles or high-rise buildings the cultural impact of the technology deployed is more striking, especially in the broader notion of culture as "life style." The massive and pervasive impacts and implications of the automobile on transportation, land use planning, pollution, assembly line working conditions and styles and patterns of living are increasingly widely recognized for both their benefits and problems.

Similarly controversial are the impacts and implications in terms of life, work, and environment of modern high rise architecture, both residential and commercial. Other technologies of high cultural impact which themselves embody large numbers of subsets of technologies include many of those in electronics. The cultural impact of computer and electronic technology is powerfully illustrated by a burgeoning and urgent concern for privacy. The sophisticated sound system technologies are the essential underpinnings of most of the "big dollar" popular music; it is tempting to wonder, for example, how different the connection between popular music and the drug culture might have been but for those technologies being available.

Various technologies may also have different impacts in terms of human and natural resource requirements. Of special interest are those technologies which emphasize labour and skill patterns that match well with the profiles of skill and labour availability in the economy or more particularly in the locality where the technology is to be located in the form of plant and equipment.

Some technologies are noteworthy because of their high natural resource requirements. As conservation of natural resources gains ascendancy as a priority of public policy, these technologies are likely to come under increasingly close scrutiny.

The fact that major technologies in use in Canada originate abroad may be important, as is discussed in more detail below. The large-scale importation of technologies into Canada may amount to the replication in Canada of a set of priorities developed abroad with respect to resource use and other matters. Much U.S. technology, for example, accords a relatively low priority to resource conservation and environmental protection, and it is these features which are behind reappraisal of major technological systems in Canada, the United States and elsewhere. More generally, there is under way a re-evaluation of the patterns and priorities in terms of resource use, consumption, lifestyle and so on, embodied in all technologies.

At the same time it must be constantly kept in mind that major changes involve costs and burdens of adjustment. The benefits to be obtained by Canada from switching or developing new technological systems may be large in absolute terms and still be outweighed by development and adjustment costs. In these cases development of novel technological systems would not be desirable.

There is a further feature of imported technologies which may be of interest and importance. There may be specific needs or desirabilities to which imported technologies do not respond. Nonetheless imported technologies may pre-empt the development of alternatives, by overcoming technological deficiency with marketing strength and sophistication. Differences in climate have frequently been cited as a possibly distinctive or differentiating factor in the Canadian case. At the present time, available foreign technologies may not be responsive to Canadian desires to avoid problems which have developed elsewhere such as congestion, pollution or urban blight. As a recent Ontario report<sup>13</sup> pointed out, however, many of the more severe problems

<sup>13</sup>See Government of Ontario, Report by *The Ontario Task Force on the Human Environment, Toward an Environmental Action Plan*, Toronto, Queen's Printer, 1974. The study was prepared for co-ordination by the Federal-Provincial Committee of Deputy Ministers of the Environment in response to the Conference on the Human Environment, Stockholm, Sweden, June, 1972.

may originate in the technologies embodied in widely used products, and basic aspects of lifestyle. It is in these cases that the burdens of adjustments may lead to the most problems economically, politically and socially.

Technologies may also have an important impact on working conditions. The same production processes which have yielded high levels of productivity may also involve the kinds of assembly line production which have been found to pose severe problems of industrial psychology. A different kind of working condition impact arising out of the widespread use of technology in production is the recently discovered connection between exposure to polyvinyl chloride and liver cancer.

#### TECHNOLOGY, MANAGEMENT, MARKETS AND MARKETING

These wider impacts of 'technology' point to another important factor. It is misleading to focus exclusively on physical technology as though it is separable from management, marketing and other enterprise functions in the determination of how a product is made, what features it has and how and how widely it is used.

'Management' skills and techniques are clearly an important part of modern production and other economic processes. Management efficiency and effectiveness are not only important with respect to profit or other performance of an enterprise. They are equally important to the successful and economic production or fabrication of goods. Especially in larger, more sophisticated enterprises and production processes, management skills and techniques are as much a part of the technology of production as the machinery and equipment.

Similarly, although in some ways more subtly, marketing is inextricably bound up with the physical aspects of technology in the design, production, distribution, and use of products and the technological features they embody. As already noted, marketing considerations are key elements in successful product conception and design. Marketing elements pervade the production process in a variety of forms from the purely economic, such as being able to run a plant at an efficient scale, to production and quality control standards which are more or less stringent. Marketing elements may be especially important as manifested in brand naming, packaging, advertising, and sales. Frequently it is impossible to distinguish physical technology from marketing technology in their contribution to product differentiation or to the extent of a product's use. Household and cosmetic products furnish numerous examples of product differentiation founded on both physical and marketing technologies. Tobacco products and computers are examples of products whose widespread use is to some important extent attributable as much to successful marketing as to physical technologies. In the case of computers the development of computer software highly linked to the machines' physical capacity forms a major part of marketing programmes. Where the *extent* of a product's use is important to its impact, such as on the environment, marketing aspects may predominate in importance.

This broader conception of technology has several implications in relation to foreign direct investment and the importation of "technologies" into Canada.

First, it is clear that imported management technology may be as important as the imported physical technology in terms of benefits to Canada, even though some management is provided locally. There are no doubt cases where imported management content in foreign direct investment (with or without personnel) merely replaces opportunities for Canadians, and it may even be inferior in quality to Canadian management. In other circumstances what falls in the category of imported management content may provide considerable benefits to Canada. For example, there may be real economic advantages to Canada in participating in international specialization within a foreign owned multinational enterprise. The headquarters management coordination is a key element which makes it possible and workable.

Marketing and marketing technologies appear to be both more important and more pervasive in their impacts than management skills, and sometimes more than physical technologies themselves.

First, marketing technologies may be associated with significant distortions in the resource allocation systems of the economy.

A leading example is that of product differentiation which is wholly or largely artificial, i.e. differences between products are apparent rather than real. Marketing induced distinctiveness which provides no additional benefit to the economy or the consuming public may nonetheless provide the basis for unnecessarily high prices, the stifling of competition or of market acceptance of other products which may in fact be superior, or, where the effective marketing technology is foreign-owned, limiting the development of a Canadian industry or a Canadian presence in an industry.

To some significant extent, Canada's importation of technology has been merely importation of product differentiation. Products or processes, even where backed by patents, may be substantially similar, but brand naming, advertising, and other marketing techniques are used to build up market distinctiveness or market attachment to a brand name product. Among the more interesting or perhaps blatant examples are found in the pharmaceuticals industry, where products of identical or apparently identical chemical composition and properties are able to achieve a greater market share or higher prices on the basis of marketing rather than product distinctiveness. Even supposedly sophisticated people such as physicians are sometimes persuaded they are getting or prescribing a distinctive and superior product, even though they or their patients are merely paying more for artificially introduced and wholly ephemeral distinctiveness features.

Closely related to product differentiation is the use of marketing techniques to overcome what would otherwise be the market disadvantages of inferior technologies. It may be possible, through the use of sophisticated marketing techniques to develop a compelling but superficial market appeal for products whose features or qualities fall well short of meeting the high expectations generated by styling, packaging, advertising or sales methods.

Marketing may also in the case of some products be more important than the physical or other impacts arising from widespread use of a specific technology. For example, if a large amount of advertising and other direct and indirect media promotion is deployed behind the use of a specific technology, such as the automobile, it is more likely to have significant cumulative environmental and other effects.

All these processes may have a substantial impact on the allocation of resources among industries and products and of benefits among producers and consumers. These effects may frequently be good or neutral in their impact. At other times they may be much less desirable.

It almost goes without saying that successful marketing is essential to the success of an enterprise. On a cumulative and aggregate basis, the marketing function is critical to continued high performance across the whole economy. Successful advertising, design, packaging and sales are all important ingredients.

Thus if Canada is handed a ready-made optimal technology ideally pre-packaged with an eminently appropriate and suitable marketing strategy, so much the better. But this is not always the case. Furthermore, the cumulative impact of the underdevelopment of the marketing function because the Canadian economy is not called on systematically or designed to develop marketing strategies and make decisions for itself except at a level much closer to implementation than conception, the marketing function overall in Canada, analogous to the research and development function, will be significantly underdeveloped. The Committee noted as well that this is true of another critical function in an economy, namely the investment or merchant banking function (see Capital Markets Report).

The underdevelopment of the marketing function affects and limits Canada's ability to effectively develop and successfully promote its own ideas or to sell itself as it might like to, e.g. making and selling world-wide the kinds of sophisticated products that behind them embody the salaries and wages of highly skilled and innovation-oriented personnel. An

enterprise or an economy whose marketing function is underdeveloped has in effect self-imposed significant barriers to its ability to organize itself and sell in the best, most sophisticated and most lucrative world markets and thereby provide the kinds and levels of jobs and incomes that the people desire.

In this context it must be borne in mind that the marketing function embraces a number of elements, any or all of which may be critically important to success. These include product conception and design, complementary product lines, market research at several stages, proper targeting of products on markets, distribution, advertising, sales and service.

As is indicated above, the underdevelopment of the marketing function in Canada is associated with the widespread importation of marketing content and techniques into Canada instead of their indigenous development. This is a result of the product line and marketing strategies of foreign parents being replicated in Canadian subsidiaries and markets. These patterns are reinforced by the fact that a major proportion of products with relatively high marketing content (principally consumer goods) are made by foreign-owned enterprises.

Sometimes, the Canadian subsidiaries do have significant marketing autonomy, or participate to a significant extent in broad marketing decision making within an international enterprise. More typically, the basic decisions concerning product concept, design, target markets, basic packaging, and promotional approach have usually already been made. The Canadian subsidiaries' production, distribution, advertising and sales programmes must be appropriately tailored to fit. As the Committee's commissioned studies in the advertising and other industries indicate, the marketing autonomy accorded Canadian subsidiaries of foreign based parents is rarely much more than that typically allocated to regional markets in the United States.

In summary, both in terms of environmental and other impacts, and in terms of development of indigenous economic strength, marketing and management rank in importance with the purely physical aspects of technology.

#### OUTLINE OF A CASE STUDY OF HIGH IMPACT TECHNOLOGY

The automobile is among the most conspicuous achievements of twentieth century technology. It is also a leading example of the pervasive effects of physical, management and marketing technologies. The automobile has unusually high downstream and upstream impacts—i.e. before and after the product is made. It is also an example of an industry where Canadian participation is the epitome of the branch plant role. In addition, the automobile is a product which has come to have very high practical and aesthetic appeal.

In the present context, the technologies embodied in automobiles and their production have four main features:

1. high resource consumption;
2. high direct and indirect environmental impact;
3. high cultural and lifestyle impact;
4. important effect on working conditions.

The large resource consumption requirements of the automobile industry are illustrated by the strong forward and backward linkages of the production process and product use. For its production the automobile requires a considerable amount of steel, and other metals both for the product itself and for the plant, machinery and equipment which produce it. Major declines in automobile production can put the steel and other metals industries into severe recession.

A second major category of impact comprises the direct and indirect environmental effects of the automobile. The heavy use of automobiles, it has been discovered in recent years, is a major factor in earth and air pollution in several categories of pollutants. The impact of the automobile

on air pollution, not to mention noise and other environmental effects, has yet to be fully resolved, although there have been recent major efforts originating in the United States. Those efforts themselves are an interesting example of the lack of Canadian participation in shaping the form of technological solution to contemporary problems.

For many years the North American automobile manufacturers have been unresponsive or resistant to making the design changes which would limit or eliminate the adverse environmental impacts of the product. Eventually sufficient determination and impatience developed within the United States Government and especially within the United States Congress to set automobile emissions standards which were stringent by comparison with the degree of technical difficulty encountered in meeting them within the prescribed time limits. (There had been a similar record of unresponsiveness with respect to automobile safety, and analogous efforts on the part of government to take corrective action).

There was a minimal Canadian involvement in the U.S. policy decision and in the technological solutions adopted by the automobile companies. From a Canadian standpoint the specific potential long run significance of the technological choices made by the automobile manufacturers was that they did not amount to a major new departure for or redesign of the automotive power plant. The engineering solution adopted was to "tack on" an additional device or devices which would cut down on the prohibited emissions.

The principal offshoot of these developments was that fuel economy in new model cars was significantly reduced. But even were Canada to desire a different approach, such as sacrificing short term environmental objectives to achieve fundamental redesign of the automobile power plant such that it attained more optimal economies in physical, cost and energy terms, that possibility was essentially precluded by Canada's subservient position with respect to the determination of major automobile design and policy questions.

Air pollution from automobile use is by no means its only adverse environmental impact. Automobile production requires large quantities of steel and chemicals, among other products. Steel production and many chemical processes have relatively high air and water pollution costs. As a result, heavy demands for automobiles sponsors a substantial derived demand for products whose environmental cost of production is high.

The scrapping of automobiles also adds to their negative environmental impact.

Similarly the automobile makes heavy demands on the petroleum industry as a fuel source. Both these forms of high resource consumption per unit product have been aggravated by the automobile designs adopted by North American producers for marketing reasons. Planned or calculated obsolescence and annual model changes are marketing induced technological features which increase the demand and drains on natural resources supplies at the same time as they provide jobs and prosperity within the automobile assembly and related industries.

High resource consumption per unit of product causes yet another effect of particular interest to Canada. It is precisely these factors which are closely identified with foreign direct investment in the resource industries. Iron ore, crude oil and other mineral products are extracted in Canada and shipped to the United States to feed industrial and consumption processes in that country. Parallel foreign ownership and control in the manufacturing (in this case automobile) and resource industries leads to similar patterns of production and consumption in Canada.

At the same time, Canada's options are severely narrowed because she is technologically "locked-in" in several respects. Lacking technological strength of her own in many key areas, Canada is dependent on outside sources, especially the United States, and notwithstanding that the technologies may embody lower resource conservation, environmental or

other priorities than Canada would herself be inclined to adopt. These patterns are reinforced by the automatic technology transfer mechanisms associated with high levels of foreign ownership in the Canadian economy.

While Canada is a participant in North American production and consumption, Canada participates to only a minor extent in technological development and design. Put another way, Canada and Canadians have little input into the design of technologies that shape their lives. For example, the Canadian automotive industry participates to only a minor extent in the decision making within the North American industry (and including the role of the United States government) with respect to technology, management and marketing and their various effects.

The automobile has also had a remarkable effect on culture and lifestyle.

The automobile is one of the leading symbols of personal and social status, and is heavily marketed as such even though it is admittedly artificial. It has come to have strong associations with sex or glamour and elegance of lifestyle. In its more elaborate or "souped-up" form it is widely used as a recreational item.

The extraordinary practical use of the automobile has similarly had a very considerable impact. For many it is the mainstay for daily transportation, for recreation and for general family usage. Its wide usage at the same time makes it a major problem of public health and safety.

But perhaps the most important impact of the automobile has been its effect on our organization and use of physical space. Configurations of and space allotted to highways, suburbs and shopping centres are prominent examples of the extent to which our land use patterns are organized with the automobile in mind. Even in our more private uses of space, driveways and garages receive a substantial allocation.

Finally, the technologies of automobile production are major determinants of modern industrial working conditions. The problems of assembly line boredom on the automotive assembly line are among the most striking challenges to industrial psychology. Because of its central role in the modern industrial economy in terms of other industries being dependent on it, the automotive sector similarly has a derivative effect on plant and working conditions in a great many related industries.

#### OBSTACLES TO WIDER CANADIAN PARTICIPATION

The underdevelopment of the Canadian research and development, technology, marketing and other functions, together with the widespread importation of technology and related marketing strategies, both closely associated with high levels of foreign ownership and control in the Canadian economy, add up to much more modest Canadian participation in shaping the technological determinants of Canadian environment and lifestyle than would be desirable.

In more practical terms there would appear to be a need for more Canadian creative research and developmental participation in all those technological areas which have a significant effect on the nature and quality of the way we live, and especially in those areas which have been identified as being especially problematic or of special future importance. In this context foreign ownership and control are a central issue. It may be recalled that much of the initial impulse to foreign direct investment, especially in manufacturing, is to secure markets for the products of technology, and that impulse tends to be continued into the operating of the multinational enterprise. The foreign subsidiaries are not generally looked to to provide technological leadership or to come up with new products or marketing strategies. It is more likely that the multinational enterprise system would be unresponsive, if it did not spurn outright, major initiatives emanating from a Canadian subsidiary. Subsidiaries

are there primarily as outlets for the implementation and sale of technologies and other ideas from headquarters, prepackaged as products or processes.

As the Committee has repeatedly emphasized, foreign ownership and control of foreign technologies should not be identified as bad merely because they are foreign. At the same time there is an essential need, especially now that our knowledge of the relevant issues has been sharpened, for a clear focus on the quality of the technologies which are imported into Canada and which have a wide impact. If there are powerful forces from outside the country, which operate to distort the "technology" of Canadians' relationship with their environment in directions which are less than optimal or positively negative, then it is a legitimate concern and objective of economic and cultural nationalism to seek approaches and policies which are more productive or constructive even if restrictive. In this context it may be noted that whether imported technology makes sense or not is not merely a matter of strictly financial considerations, although these are an exceedingly important factor and may be the determining one. There may be technologies which are highly inappropriate in terms of their environmental, cultural resource and other impacts but which are commercially very lucrative. Conversely, highly desirable technologies may not be commercially viable in any given set of economic circumstances.

The development of appropriate technologies embraces creative, constructive processes, with the inventor or creator or designer responding creatively to a variety of environmental stimuli most of which ought to be relevant to the object which it is sought to achieve with the innovation. To the extent that the Canadian or Ontario environment or aspirations are different, different approaches from those adopted from elsewhere would appear to be desirable. For this to happen, it is important that technological creativity responsive to the main features and subtleties of the Canadian environment exist, flourish or be fostered. There may be great dangers or disadvantages in allowing these processes or their potential to be preempted by technological importations. This is even more true if the imperative derives not from the superiority of the technology but from other forces of an institutional kind (e.g. sophisticated marketing) which may be deployed behind an inferior technology or one inappropriate to Canadian environments and aspirations.

It should not, however, be overlooked that Canada faces formidable obstacles in attempting to go it alone or develop its own major technological systems. For many purposes Canada is not favoured with a very large market in relation to the development of sophisticated industrial activity. There are a great many tariff and non-tariff barriers to be faced or overcome in foreign markets. Even where access to other countries' markets has improved the underdevelopment of Canadian marketing functions may remain an impediment.

Were Canada to undertake the development of novel technological systems in certain categories, she might well run into even more formidable problems. Because the United States industrial system has been built on the basis of a very low conservation and pollution priority, technologies which included environmental and resource depletion costs to an extent more truly reflective of their total impact would quickly price themselves out of the United States market. For example, an automobile whose price included full charges for direct and indirect pollution would be unsaleable. The U.S. "sets the pace" to a substantial extent, and it may be exceedingly difficult for any other country to go a different route. There appears to be considerable market, cultural and institutional resistance in the United States to major foreign technological systems or foreign technology in certain classes.

This may arise from a number of factors, of which the role of government may be among the most important. Substantial U.S. Government financial, technical and regulatory support for the industries comprising aircraft manufacturing are an example of the latter which may provide a basis for substantial interference with the successful marketing of a major foreign aircraft system. Politicians may be readily persuaded to intervene informally or legislatively to "protect jobs" in a major industry and especially one in which the American social and

political system has a major psychological stake. It can be expected that very substantial forces will be mobilized to jealously protect against inroads in areas where America feels it has or ought to have "technological leadership."

On the other hand, an economy or society without significant technological development capacity is at the mercy of external developments as regards having technologies which are appropriate to its aspirations and environment. If inappropriate technologies within a certain range are the only ones developed outside, then Canada would have essentially only two options, to use the inappropriate technology or do without, unless of course Canada has the capacity and preparedness to undertake technological development in that area on its own. There are similar questions or risks for the Canadian economy or Canadian enterprises concerning the likelihood or certainty of access to the technology. Especially in the case of those technologies which are inseparable from the expertise of specific persons and can thus be preserved for the exclusive or controlled use of the developing enterprise it is conceivable that Canada might be denied technology that it considers essential or highly desirable. This is the position that the Soviet Union is in at the present time vis-à-vis American technology. It wants and needs American technology of a kind it cannot obtain without the cooperation of the United States if it (the Soviet Union) is to meet its development aspirations.

### III. POLICY ALTERNATIVES AND RECOMMENDATIONS

The challenge posed by the foregoing considerations is, what mix of strategies will make the best sense for Canada in terms of her technological and development needs? There are three main possibilities: importation of technology, development of indigenous technology, and seeking wider participation for Canada in the technological activities of multinational enterprises. It is suggested that no one or two of these can be a sufficient strategy. The optimal approach for Canada is likely to lie in the skillful and selective use of all three. Canada would appear to be favourably placed to do just that.

As was indicated in an earlier section, it would be neither feasible, or desirable for Canada to attempt to provide for itself in all main categories of technology. The advantages of an international division of labour in the development of technology significantly outweigh the costs. The sophistication employed in the selection, adaptation and use of imported technologies remain a critically important factor.

At the same time it is highly desirable that there be substantial indigenous Canadian strength in technological development in a variety of areas. The development of creative technological solutions responsive to domestic problems, environments, and aspirations are of prime importance. The "technological infrastructure" in terms of personnel and facilities which substantial R & D implies have important positive linkages to many areas of economic activity in addition to direct scientific benefits. Successful technological development may yield significant economic returns to enterprises and to the economy as a whole.

In other circumstances, Canadian involvement in the multinational enterprise on a significant participation basis may be the approach which is best. In some industries, bargaining for a better share of the R & D action for Canada is the only realistic approach because the barriers to technological entry are so very high. In other instances such participation may be merely the most economical way for Canadian enterprises to arrange for significant R & D involvement in selective industries.

Canada's high income, education and skill levels are all strongly supportive of this country's ability to pursue these strategies individually and collectively.

On the other hand, designing appropriate policy approaches is a difficult matter. The institutional, economic and behavioural complexities inherent in research, development and technology (especially in the broad sense in which it is taken in the foregoing discussion) pose formidable challenges to policy design. The intangible and sometimes highly conceptual-

ized nature of "technology" and its properties add a further problematic dimension. And there is the additional matter of the uncertainty of technological production: frequently one does not know in advance whether a technology in a particular area can in fact be found or developed. By contrast, making a product or building a house is much more straightforward. It may similarly be difficult to ascertain before the fact important impacts and ramifications of technologies.

Nonetheless, in the context of the foregoing, two key issues stand out.

First there is a need for Ontario and Canada to be more selective in their importation of technologies and related marketing and management content or techniques. The question is, by what mechanisms and according to what criteria?

Second there is an equally clear need and desire for Canada to participate in the development of physical, managerial and marketing technologies more fully and on her own account, at least on a selected basis. The questions are, in which areas, and in what form and under whose auspices should they be financed and accomplished?

In a limited number of areas and cases it may be possible to articulate fixed or per se rules to govern the 'importation' of technology. Environmental or safety standards, for example, may be instituted by statute or regulation to select out those which comply and those which do not. These rules usually do not differentiate between domestic and foreign technologies. In some cases that may be irrelevant because virtually all the technologies in some classes are imported. Sometimes a specific imported technology may be banned, as in the case of the use of the 'DES' growth hormone in cattle production.

More frequently, a case-by-case approach is clearly required, especially in relation to the foregoing discussion and the objective of selecting out those technologies and related techniques ill suited to Canadian aspirations, priorities or to the Canadian environment generally.

Technologies vary greatly in their physical, economic and socio-cultural-psychological properties, and can only be properly evaluated at a considerable level of detail. The importance of small changes at the margin of economic cost are an example of the importance of critical detail in assessing technologies.

It is the Committee's conclusion that across the large range of technologies imported into Canada in the variety of ways and forms previously identified, there is insufficient scrutiny brought to bear on behalf of considerations or priorities important to Canadians, including the possibility of alternative technological development in Canada. Put another way, physical technologies and related managerial and marketing styles and techniques are uncritically or automatically imported into Canada. In effect, the Committee has concluded that importations of technological/managerial/marketing systems ought to be more systematically and carefully "screened" prior to their adoption in Canada.

Technologies and related techniques can be screened by governments and/or private enterprise involved in or considering their use or adoption. Sometimes government itself may be the user or applier of the technologies, as in defence and transportation.

There are three main areas where it may be appropriate for government to screen technology.

The first and most obvious case is where government is itself the purchaser of technology. In areas such as defence procurement, the government is obviously in the market for major technological systems. There are also areas where government, while not the only major purchaser, can be an important factor in the assessment and use of specific technologies in Canada, in some cases the critical factor. The recent efforts of the federal government in connection with computer technology is an example of this sort. It would in any case be appropriate for the government to carefully evaluate technological properties and the degree

of Canadian content with special reference to physical technologies and related managerial and marketing aspects in all its purchases.

A second category of case where government screening of technology may be appropriate is in the evaluation of high impact technologies or technological systems, especially in conjunction with governments' policy responsibilities. Technology assessment of this kind has already been undertaken by governments in selected areas. Studies have been conducted for example of the environmental and other impacts of the technologies for off-shore extraction of crude oil, and urban transportation. There is considerable room for expansion of the role of government in the identification and evaluation of major technologies and technological systems. Indeed, the Committee recommends such an extended role below.

Third, government screening of specific aspects of technology importation may be necessary or desirable. It would be exceedingly cumbersome and inefficient for a government to scrutinize all forms and aspects of technology importation. There are, however, certain aspects which typically arise in connection with the importation of technology in which government intervention is frequently essential if there is to be screening of those features at all. Important examples include market or other restrictions in licensing or equipment purchase, tied procurement, (where it is a condition of getting the technology that materials and parts also be purchased), excessive charges for the use of technology, or equivalent arrangements even if in a different form between foreign parents and their subsidiaries in Canada (e.g. export market allocation by managerial direction). In many of these cases the Canadian company may have insufficient incentive to resist such provisions, lack bargaining power, or be subject to being played off against other firms in competing to acquire the technologies in question. Government intervention may in these cases be appropriate because national economic or other interests are impeded rather than advanced by private arrangements, or to lend government backing to strengthening the bargaining power of Canadian enterprises. Government screening of this sort may also be used in connection with trademarks and copyrights which are also important.

These screening processes have an obvious relation to the general assessment of foreign direct investment and to the Foreign Investment Review Act. The procedures under that Act in effect invite the government to review the full package of elements associated with "technology" importation embodied in direct investment in those cases which come within the purview of the legislation.

The categories of cases in which government screening intervention is appropriate or effective in connection with technology importation is limited by the extreme impracticability and undesirable nature of government intervening in anything approaching a significant number of the multitude of technology importations into Canada in any given period. The direct costs of administration and the indirect costs in terms of impact on enterprises and distortions introduced into the economic system vastly outweigh benefits which might be achieved. General government screening intervention is rejected as unworkable.

But, as the Committee has concluded, it is urgent and important that technology importation processes be geared more carefully and selectively to Canadian priorities and aspirations. It is clear from the discussion above that this can only be done efficiently at the level of the individual enterprises importing and using the technologies. This is so not only because it would be hopelessly inefficient for such screening to be done by governments, but because the enterprises have in any case a major stake in these decisions.

What is needed then are policies of two general kinds. First, there is a need for Canadian aspirations and priorities relating to research and development and technology to be articulated in terms which are both sufficiently direct and sufficiently clear in their commercial impact. Second, there is a need for Canadian priorities and considerations to be more systematically reflected in the structure of financial incentives and disincentives relating to the importation of technologies and related techniques.

There is also a need for fresh approaches which emphasize development of Canadian strength in research and development and technology and related areas. More ambitious and comprehensive science policies or strategies are needed.

Canada now has a number of policies and programmes which make up a science policy. There is extensive funding of research especially by the federal government. This includes research conducted by federal or provincial agencies such as the National Research Council or the Ontario Research Foundation, research support to universities, and the funding of industrial research. In recent years the federal funding of research has been criticized for insufficient emphasis on mission-oriented research, and over-emphasis on research in federal agencies and universities. The government has in addition special programmes to stimulate or assist in industrial R & D. The Industrial Research and Development Incentives Act, the Programme for the Advancement of Industrial Technology (both federal), and the Ontario Research Foundation programmes including field services are examples. Both the Ministry of Industry and Tourism in Ontario and the federal Department of Industry, Trade and Commerce have programmes to foster greater industrial design activity in Canada. In selected cases such as transportation and communications both federal and provincial governments have tried to aggressively deploy government purchasing power to stimulate research and development in selected areas.

Official interest in science policy is also reflected in the setting up of new governmental agencies such as the federal Ministry of State for Science and Technology and the Science Council of Canada, or in increased interest in science policy aspects within existing government agencies. Both the Ontario and the Canadian governments have for example been searching for new approaches to innovation in Canada. Finally, there are within the framework of what may be generally defined as Canadian science policy several pieces of special purpose legislation affecting the R & D and innovation climate in Canada. Of these the most important is Canadian patent law but there is in addition a variety of statutory policy in the areas of product standards, trademarks, trade practices and competition policy.

The Committee notes that many of the above programmes and policies are of relatively long standing and are in need of review. A number of these areas have already been identified by the Senate Special Committee on Science Policy, the Science Council, the Organization for Economic Co-operation and Development, the Economic Council and the Gray Report. The Committee endorses and reinforces their conclusion that ambitious new policy packages have yet to be developed in support of Canadian aspirations and objectives in the areas of research, development technology and innovation. The Committee would in particular draw attention to the need for much greater efforts by Ontario in the development of science policy for the province and for the country as a whole. The Committee also notes the need for coordination of science policies with industrial policies generally.

Having regard to the complexity of science policy, however, and the ongoing work and greater expertise of other bodies, the Committee recognizes that it cannot itself propose comprehensive solutions although it hopes that its recommendations below will aid in charting and advancing new directions.

A third major area requiring policy attention comprises the development of strategies for the wider participation by Canada in the technology development activities of multinational enterprises. Most of the world's leading enterprises are already represented in Canada but with a few exceptions Canadian R & D activity within these enterprises is modest or negligible. There is a need for new policies to ensure that multinational enterprises locate much greater R & D activity within Canada. The Foreign Investment Review Act and major government purchasing are examples of procedures and opportunities for negotiating with foreign owned companies for a greater R & D share for Canada. New, additional and more systematic policies and incentives nevertheless appear to be required. The Committee's recommendations in Chapters 4 and 5, are designed to provide additional techniques for these purposes.

To aid in accomplishing this variety of ends the Committee proposes the following additional recommendations:

THE COMMITTEE RECOMMENDS THAT THE MINISTRY OF INDUSTRY AND TOURISM ORGANIZE AN ONTARIO AGENCY FOR RESEARCH, DEVELOPMENT, DESIGN AND TECHNOLOGY.

THE COMMITTEE RECOMMENDS THAT THE AGENCY BE ASSIGNED THE RESPONSIBILITY FOR DEVELOPING, IMPLEMENTING AND CO-ORDINATING ONTARIO PARTICIPATION IN NATIONAL SCIENCE POLICY.

THE COMMITTEE RECOMMENDS THAT THIS AGENCY BE DIRECTED TO DEVELOP AND SPONSOR REVISIONS AS APPROPRIATE IN EACH MAJOR AREA OF NATIONAL AND PROVINCIAL SCIENCE POLICY.

The Committee recommends the organization of an agency as a focal point and stimulus to the development of a more aggressive and co-ordinated science policy in Ontario. The Committee recognizes that this recommendation may be interpreted by some as merely a proposal to duplicate work already under way at the federal level. While the Committee recognizes this criticism it is outweighed by two main factors. First, the government of Ontario already has a broad range of policies and programs, especially but not exclusively related to industrial development, which clearly involve major questions of science policy and which stand to benefit from more substantial and co-ordinated science policy efforts by Ontario. Second, the Province of Ontario as Canada's leading industrial area has a major stake in the form, content and timing of all policies affecting research, development, design and technology in Canada. It is entirely appropriate that the Government of Ontario be fully equipped in terms of resources and expertise to promote and defend the interests of the Province in decision-making and policy development related to all aspects of science policy. The Committee notes further that in a number of instances in recent years Ontario and other provinces have been in the position to propose significant improvements in federal policies developed jointly with the provinces even where there was an apparent duplication of effort.

THE COMMITTEE RECOMMENDS THAT THE GOVERNMENT OF CANADA IN CONSULTATION WITH THE PROVINCES DEVELOP AND IMPLEMENT CRITERIA AND PROCEDURES TO REVIEW ALL MARKET AND MARKETING RESTRICTIONS, TIED PROCUREMENT, PROVISIONS GOVERNING IMPROVEMENTS, AND THE REASONABLENESS OF CHARGES IN CONNECTION WITH THE IMPORTATION OF NEW TECHNOLOGIES INTO CANADA.

THE COMMITTEE RECOMMENDS THAT THESE PROCEDURES INCLUDE AND EMPHASIZE NEGOTIATIONS WITH FOREIGN PROVIDERS OF TECHNOLOGY AS REGARDS RESTRICTIONS AND TERMS.

In the Committee's own inquiries and commissioned studies and in numerous other reports, restrictive conditions and the level of royalties or other charges have consistently been identified as areas warranting more careful scrutiny in the Canadian public interest. It is known that significant constraints are imposed on Canada's ability to service export markets because of restrictions in licensing or other agreements. Tied procurement whether arising formally or informally has also in many cases been associated with lack of opportunities for Canadian suppliers of goods and services or the truncated development of particular industry sectors in Canada. The Committee notes that the Minister of Industry, Trade and Commerce has already stated his intention to implement some form of screening of licensing agreements, although the precise form of the proposed policy has yet to be spelled out.

As regards charges for imported technology and related techniques it has not generally been alleged that these have been excessive. Nevertheless, on the basis of its own inquiries and its review of other studies, the Committee is satisfied that the level of charges against Canadian

enterprises and the Canadian economy for imported technologies and related techniques are at a level such that more careful scrutiny is warranted. While the Committee is not certain that it would recommend review of the reasonableness of licensing and other technology related charges standing by themselves, the Committee is satisfied that review of restrictive conditions in connection with the provision of technology and related techniques is warranted by the facts and that such a review should include some appraisal of the reasonableness of technology-related charges. In addition to other aspects, the level and duration of charges for imported technology has a considerable bearing on whether alternative technological development in Canada is warranted. This latter alternative is unlikely to get sufficient consideration, however, in the case of non-arms length transactions or where bargaining power on the Canadian side is weak.

In its discussion above, the Committee has noted the need for greater selectivity in the importation and use of technologies in Canada, and to that end the need for specific articulations of desirability and undesirability of technological properties to the extent possible. The Committee recognizes that these are exceedingly difficult to do and in any case may require case by case analysis at the level of individual products and processes. Nevertheless it has proved possible at both the federal and provincial level for standards to be articulated in certain policy areas such as the environment and safety. Developing policies in the energy area are bringing forth examples of how conservation priorities may be given specific expression. The Committee anticipates that with systematic policy development it will be possible to articulate more fully standards to guide both the private and public sectors in the future assessment of technological properties that may have been overlooked or under-emphasized in the past. Accordingly,

**THE COMMITTEE RECOMMENDS THAT THE ONTARIO AGENCY FOR RESEARCH, DEVELOPMENT, DESIGN AND TECHNOLOGY, IN CONSULTATION WITH OTHER ONTARIO AGENCIES, THE GOVERNMENT OF CANADA, AND THE GOVERNMENTS OF OTHER PROVINCES DEVELOP AND ARTICULATE STANDARDS FOR ASSESSMENT OF BOTH CANADIAN AND FOREIGN TECHNOLOGIES.**

Also in connection with the need for greater selectivity in technology importation, and especially in relation to the possibility of alternative technological development in Canada, the Committee noted above the need for a new structure of incentives and disincentives operating at the level of individual enterprises and affecting the degree of care exercised in appraising the costs and effects of imported technologies. Especially in the case of Canadian subsidiaries of foreign owned enterprises there may be very little incentive to review the specific features and costs of parent-provided technology other than the ultimate saleability of the product. While the latter is obviously important, in by far the larger number of cases it is not the critical ingredient in relation to importation of technology into Canada. To encourage greater selectivity by enterprises in the importation of technology, and greater development of technologies within Canada,

**THE COMMITTEE RECOMMENDS THAT THERE BE DEVELOPED AND IMPLEMENTED DIFFERENTIAL TAX TREATMENT OF IMPORTED "TECHNOLOGICAL CONTENT" AS OPPOSED TO THAT DEVELOPED IN CANADA.**

**THE COMMITTEE PROPOSES THAT "TECHNOLOGICAL CONTENT" BE DEFINED BROADLY SO AS TO INCLUDE RESEARCH, DEVELOPMENT, MANAGEMENT AND MARKETING EXPENDITURES ASSOCIATED WITH PRODUCT OR TECHNOLOGICAL DEVELOPMENT.**

**THE COMMITTEE RECOMMENDS THAT FOR EACH THREE DOLLARS OF IMPORTED "TECHNOLOGICAL CONTENT" SO DEFINED THERE BE ALLOWED AS A DEDUCTION ONLY TWO DOLLARS FOR INCOME TAX PURPOSES. FOR EACH THREE DOLLARS OF CANADIAN "TECHNOLOGICAL CONTENT" SO DEFINED THE COMMITTEE**

RECOMMENDS THAT THERE BE ALLOWED A DEDUCTION OF FOUR DOLLARS FOR INCOME TAX PURPOSES. THE COMMITTEE DOES NOT FEEL THERE IS A NEED FOR EXEMPTIONS TO BE PROVIDED FOR OR CONSIDERED.

This recommendation is designed to have the following features:

First, the recommendation deliberately focuses on the broad notions of technology as embracing related management and marketing content with a view to stimulating the development of these functional areas in Canada, and encouraging greater selectivity, along with physical technology, in their importation into Canada. The Committee recognizes that developing workable procedures and formulae to measure such content is and will be difficult. On the other hand, it is apparent that Canada and other countries are increasingly focussing on the content of these and other specific elements in goods, services and capital transactions internationally and it is inevitable and desirable that sophisticated measurements be developed. The Committee notes that sophisticated accounting and management information systems in increasingly wide use especially in larger enterprises can now provide this kind of information for internal management purposes.

The Committee further notes that in any case complex taxation legislation in Canada and elsewhere already has a backlog of experience in defining and enforcing provisions of the kind that arise in connection with the foregoing recommendation. Tax treatment of mineral exploration and development poses similar complexities, for example. The Committee recognizes that it may prove necessary to limit some of the flexibility which enterprises previously enjoyed in minimizing taxes. In particular, the Committee notes that dividends paid by subsidiaries to their parents may reflect earnings from management, marketing or technological content furnished by the parent company.

Two financial features of these recommendations should also be mentioned. First, it may be noted that a company which imports half its technological and related content and produces the other 50% in Canada would get an even tax break, i.e. dollar for dollar deductions. At the same time the differential in tax treatment between technologies imported and those indigenously developed provides a significant inducement to consider technological development in Canada.

These recommendations also provide an incentive for technologies developed in Canada to be exploited in Canada.

The Committee recognizes that these recommendations have some problematic features as well. It is likely to have uneven impacts on individual enterprises and especially those which are foreign owned. It is conceivable that such provisions could serve to provide unwarranted technological and, thereby, market protection to some Canadian producers. There are likely to be negative revenue effects, even if modest. In the Committee's view, however, these negative possibilities are outweighed by the prospective advantages of the recommendations.

The Committee also recognizes that these recommendations may also affect Canada's international trade relations. In particular, it may be argued that the implementation of these recommendations would amount to imposition of a non-tariff barrier to trade with respect to goods embodying technological content, such as machinery. The Committee notes that non-tariff barriers are currently under negotiation within the General Agreement on Tariffs and Trade. In the Committee's view it would be an appropriate negotiating objective for the Government of Canada to secure a more equitable division of high skill value-added between Canada's export and import accounts than has heretofore been the case. In this connection the Committee notes that its recommendations are non-discriminatory with respect to country of technological source.

The Committee is convinced there is also a need for major new initiatives to secure more substantial technological development in Canada, for all the various reasons previously identified. These include the economic benefits to be obtained from this kind of activity,

their relation to manpower policy and job satisfaction, the need for development of technologies more responsive to Canadian priorities and aspirations, and the economic returns to be secured from successful technological development. In the Committee's view successful efforts along these lines will embrace three main elements:

1. identification of areas for technology concentration or attention;
2. appropriate funding and execution of technological development;
3. more systematic or selective dissemination and application of technology.

It appears to the Committee that there is need for a more deliberate approach to the development of technology and technology use in Canada than has heretofore prevailed. The insufficiency of autonomous processes for the development and dissemination of technology is reflected in major efforts by governments in Canada and elsewhere to foster technological growth and development in specific areas, such as urban transit, communications, and computers. In the Committee's view it would be desirable for these trends and processes to be systematized. To that end,

THE COMMITTEE RECOMMENDS THAT THE ONTARIO AGENCY FOR RESEARCH, DEVELOPMENT, DESIGN AND TECHNOLOGY GIVE PRIORITY TO THE SYSTEMATIC IDENTIFICATION OF TECHNOLOGICAL AND RELATED AREAS IN WHICH ONTARIO AND CANADA SHOULD CONCENTRATE THEIR RESEARCH AND DEVELOPMENT EFFORTS.

THE COMMITTEE RECOMMENDS THAT PRIORITIES INCLUDE:

- THE DEGREE TO WHICH EXISTING TECHNOLOGICAL SYSTEMS HAVE NEGATIVE EFFECTS,
- TECHNOLOGIES WHICH ARE ESPECIALLY PROMISING IN TERMS OF CONTRIBUTION TO ENVIRONMENTAL ENHANCEMENT, RESOURCE CONSERVATION, JOB SATISFACTION VALUES, AND PRODUCT DURABILITY,
- TECHNOLOGIES WHICH MIGHT PROVIDE A BASIS FOR DEVELOPMENT OF NEW CANADIAN INDUSTRY OR ATTRACT WIDESPREAD INTERNATIONAL USE.

For technological development to be successful and sustained, it requires appropriate initial funding and should be expected to pay for itself across the period of its useful life.

THE COMMITTEE RECOMMENDS THAT THE ONTARIO AGENCY FOR RESEARCH, DEVELOPMENT, DESIGN AND TECHNOLOGY UNDERTAKE AN IMMEDIATE REVIEW OF THE SYSTEM OF FUNDING OF AND RETURNS TO TECHNOLOGICAL DEVELOPMENT IN CANADA.

THE COMMITTEE RECOMMENDS THAT PRIORITY BE GIVEN TO REVIEW AND REVISION OF CANADIAN PATENT, TRADEMARK, COPYRIGHT AND OTHER LEGISLATION RESPECTING INTELLECTUAL PROPERTY. THE COMMITTEE RECOMMENDS THAT NEW LEGISLATION IN THESE AREAS BE MORE DIRECTLY SUPPORTIVE OF TECHNOLOGICAL DEVELOPMENT IN CANADA.

THE COMMITTEE RECOMMENDS THAT PROGRAMMES OF DIRECT GOVERNMENT FUNDING, GOVERNMENT PURCHASING POLICIES, AND NEW POLICY GOVERNING TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS BE DEVELOPED TO INCREASE THE LEVELS OF TECHNOLOGICAL DEVELOPMENT IN CANADA AND THE REINVESTMENT OF FUNDS IN FURTHER DEVELOPMENT EFFORTS.

THE COMMITTEE RECOMMENDS THAT OFFICIAL POLICIES AND PROGRAMMES INCLUDE MEASURES TO ENSURE TO THE EXTENT POSSIBLE THAT TECHNOLOGIES DEVELOPED IN CANADA ARE ALSO EXPLOITED AND APPLIED IN CANADA.

The Committee notes that these recommendations are in addition to and not in substitution of its recommendations in its Interim Report on Capital Markets.

It is clear to the Committee that special approaches are required in overall strategies for greater technological development in Canada to take account of high levels of foreign ownership in the Canadian economy.

THE COMMITTEE RECOMMENDS THAT IN THE IDENTIFICATION OF PROMISING AREAS FOR INCREASED CANADIAN TECHNOLOGICAL DEVELOPMENT, THE ONTARIO AGENCY FOR RESEARCH, DEVELOPMENT, DESIGN AND TECHNOLOGY GIVE SPECIAL ATTENTION TO INDUSTRIAL AND TECHNOLOGICAL SECTORS WHICH ARE SIGNIFICANTLY FOREIGN OWNED. THE COMMITTEE RECOMMENDS THAT THE FOLLOWING BE SPECIFICALLY EMPHASIZED:

- INDUSTRIES WHERE LOW OR NEGLIGIBLE RESEARCH AND DEVELOPMENT IS ASSOCIATED WITH HIGH LEVELS OF FOREIGN OWNERSHIP;
- INDUSTRIES WHERE THERE IS SPECIAL PROMISE FOR WIDER CANADIAN PARTICIPATION BECAUSE OF THE NATURE OF THE TECHNOLOGY INVOLVED;
- INDUSTRIES AND TECHNOLOGIES WHICH ARE LARGELY FOREIGN OWNED BUT OF SPECIAL IMPORTANCE IN RELATION TO CANADIAN PRIORITIES (E.G. ENVIRONMENT AND RESOURCE CONSERVATION).

In its discussion below of the Foreign Investment Review Act the Committee recommends broadened, general and periodic review of the patterns of growth and development in foreign owned sectors. In those review processes the Committee attaches special importance to research and technological development in the broader sense of the Committee's previous discussion and analysis.

THE COMMITTEE ACCORDINGLY RECOMMENDS THAT THE MINISTRY OF INDUSTRY AND TOURISM DEVELOP SPECIFIC STRATEGIES FOR NEGOTIATION WITH CANADIAN SUBSIDIARIES OF MULTINATIONAL ENTERPRISES, THEIR PARENTS, AFFILIATES AND OTHER HOME AND HOST GOVERNMENTS AS APPROPRIATE, FOR WIDER CANADIAN PARTICIPATION IN TECHNOLOGICAL DEVELOPMENT WITHIN MULTINATIONAL ENTERPRISES.

THE COMMITTEE RECOMMENDS THAT SUCH NEGOTIATIONS BE CONDUCTED WITHIN THE FRAMEWORK OF PERIODIC REVIEW OF FOREIGN OWNED ENTERPRISES WHICH THE COMMITTEE HAS RECOMMENDED.

These latter recommendations should be read in conjunction with the Committee's discussion and recommendations regarding the Foreign Investment Review Act and Industrial Development Strategies, which follow.

Finally, the Committee would emphasize that its programme of recommendations with respect to research, development and technology draws much of its strength from the mutually reinforcing character of individual recommendations. While the Committee recognizes that it may be possible to implement recommendations individually, it would urge that consideration be given to implementing a package of new measures along the lines the Committee has proposed in order to achieve maximum impact.

## **CHAPTER 4**

**The Foreign Investment Review Act**

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# THE FOREIGN INVESTMENT REVIEW ACT

## Summary of the Act

### I. INTRODUCTION

The enactment of the Foreign Investment Review Act directly stemmed from a report published by the Federal Government in 1972 entitled "Foreign Direct Investment in Canada," sometimes referred to as the Gray Report which, among other things, recommended that the Government screen new direct foreign investment in Canada.

The Foreign Investment Review Act (hereinafter referred to as the "Act") was passed by both the House of Commons and the Senate and received Royal assent on December 12, 1973. The Act is administered by the Foreign Investment Review Agency, (hereinafter referred to as the "Agency") which is established by the Act.

### II. APPLICATION OF THE REVIEW PROCESS

The Act establishes a procedure for the review and assessment of foreign investment in Canada and is aimed at preventing such investment when it fails to offer significant benefit to Canada. The criteria which are to be taken into consideration in assessing whether a proposed investment will likely be of significant benefit to Canada are listed in the Act and are discussed below.

The Act differentiates between two kinds of foreign investment:

- (1) foreign takeovers of existing Canadian businesses;
- (2) the establishment by foreigners of new businesses in Canada.

The application of the screening process established by the Act to each of the above kinds of foreign investment comes into effect at different times by means of proclamations made pursuant to the Act.

On the first proclamation date, namely April 9, 1974, the application of the Act to foreign takeovers of existing Canadian businesses came into effect.

On the second proclamation date, which has not as yet been announced, those sections of the Act providing for the screening of new businesses proposed to be established by foreigners are to come into force. The Minister of Industry, Trade and Commerce has stated that the second proclamation will be made within the next year or so, when the Agency has gained experience with the administration of the takeover provisions.

The provisions dealing with the establishment by foreigners of new businesses in Canada encompass both the establishment of a new business in Canada by a person who has not previously carried on any business in Canada and also the expansion of an existing foreign controlled Canadian enterprise into areas which are unrelated to the business already carried on in Canada by that enterprise. However, it should be noted that expansions of existing foreign controlled enterprises into businesses which are related to the existing business (other than by way of takeover) do not come within the screening process.

### III. THE SMALL BUSINESS EXEMPTION

The Act at present exempts from the screening process takeovers of business enterprises of which:

1. The gross assets determined as of the end of the latest completed fiscal period do not exceed \$250,000.00; and
2. The gross revenue determined for the latest completed fiscal period does not exceed \$3,000,000.00.

However, this small business exemption will only apply in a limited way once the second proclamation date mentioned above is announced. At that time even if the target business has the above "small business" characteristics, the takeover will be screened if the foreign investor has not previously carried on any other business in Canada, or if he has carried on business in Canada, the businesses already carried on are unrelated to the business of the target business. In other words, the exemption from the screening process for takeovers of small business will apply only if the takeover constitutes an expansion by the foreign investor into an area related to the business already carried on by him in Canada.

#### IV. CRITERIA IN DETERMINING BENEFIT TO CANADA

The Foreign Investment Review Act is designed to screen takeovers and business expansions by foreign investors in order to determine whether or not the foreign investment will be of a significant benefit to Canada. The Act enumerates in subsection 2(2) the following factors to be taken into account in assessing whether any takeover or business expansion in Canada is likely to be of significant benefit to Canada:

- (a) The effect of the acquisition or establishment on the level and nature of economic activity in Canada, including, without limiting the generality of the foregoing, the affect on employment, on resource processing, on the utilization of parts, components and services produced in Canada, and on exports from Canada;
- (b) the degree and significance of participation by Canadians in the business enterprise or new business and in any industry or industries in Canada of which the business enterprise or new business forms or would form a part;
- (c) the effect of the acquisition or establishment on productivity, industrial efficiency, technological development, product innovation and product variety in Canada;
- (d) the effect of the acquisition or establishment on competition within any industry or industries in Canada; and
- (e) the compatibility of the acquisition or establishment with national, industrial and economic policies taking into consideration industrial and economic policy objectives enunciated by the government or legislature of any Province likely to be significantly affected by the acquisition or establishment.

#### V. KEY TERMS AND DEFINITIONS IN THE ACT

In more precise terms, the screening process in the Act applies to *non-eligible persons* who propose to *acquire control* of a *Canadian business enterprise* and will apply to non-eligible persons who propose to *establish* a new *business* in Canada.

Each of the terms underlined are extensively defined in the Act; in addition the Act sets out certain presumptions as to what constitutes control or the acquisition of control.

The most difficult part of understanding the application of the Act lies in grasping the various meanings of the above terms and presumptions.

##### (1) THE MEANING OF "NON-ELIGIBLE PERSON"

In general, the term "non-eligible person" is defined in the Act and the regulations to the Act to include:

- (1) an individual who is:
  - (a) neither a Canadian citizen nor a landed immigrant;
  - (b) "a landed immigrant who has been ordinarily resident in Canada for more than one year after . . . he first became eligible to apply for Canadian citizenship" and who is not a Canadian citizen;

- (c) a Canadian citizen ordinarily resident outside of Canada who has applied for citizenship of another country;
  - (d) any Canadian citizen, other than those mentioned in (e) below, who was ordinarily resident outside of Canada for five or more consecutive years before the proposed takeover of a Canadian business enterprise;
  - (e) a Canadian citizen who was ordinarily resident outside of Canada for ten or more consecutive years before the proposed takeover of a Canadian business enterprise:
    - (i) as a full-time employee of the Government of Canada, a provincial government, a recognized international organization or a Canadian business enterprise;
    - (ii) as a full-time student at a recognized university or other educational institution; or
    - (iii) who was ordinarily resident in Canada when he reached his 60th birthday;
- (2) a foreign government or an agency of a foreign government,
- (3) a corporation ". . . that is controlled in any manner that results in control in fact, whether directly through ownership of shares or indirectly through a trust, a contract, the ownership of shares of any other corporation or otherwise . . ." by a non-eligible person as described under paragraph (1) or (2), above or by a group of which one or more members is a non-eligible person as described under (1) or (2), above.

## (2) PRESUMPTIONS AS TO CONTROL OF A CORPORATION

As indicated above, a corporation controlled in fact by a non-eligible person or by a group of which one or more members is a non-eligible person, is itself a non-eligible person.

The Act sets out certain rebuttable presumptions as to when a corporation whether incorporated in Canada or elsewhere, will be considered to be a non-eligible person. Section 3(2) states essentially that if the following conditions exist, the corporation will be considered a non-eligible person unless the contrary is established:

- (a) if its voting shares are publicly traded in the open market and 25% or more of those shares in the aggregate are owned by persons who are non-eligible individuals, foreign governments or agencies, or corporations incorporated outside Canada;
- (b) if its voting shares are not publicly traded, and 40% or more of those shares in the aggregate are owned by persons who are non-eligible individuals, foreign governments or agencies, or corporations incorporated outside Canada;
- (c) if 5% or more of its voting shares are owned by any one non-eligible individual, foreign government or corporation incorporated outside Canada.

Section 3(5) of the Act is designed to alleviate problems in the determination of the percentage of shareholdings by non-eligible individuals where there are numerous small shareholdings. Basically, the officers of the corporation can rely on the records which are required to be kept under the corporate laws of its place of incorporation. Other rules are set out in Section 3 relating to the control concept and deal with such things as options on shares and situations in which groups of persons may act in concert with respect to their shareholdings.

In Section 3(7) it is established that where no one person or group of persons controls a corporation through the ownership of shares of the corporation or any other corporation, or where a corporation is a corporation without share capital, the corporation shall be presumed to be controlled by the group of persons comprising the board of directors or other governing body of the corporation. It is also presumed that a corporation is controlled by its board of directors as follows:

- (a) if only 20% or less of the directors are themselves non-eligible persons the corporation is deemed *not* to be a non-eligible person;
- (b) if between 20% and 50% of the directors are non-eligible persons, the corporation may still not be considered to be a non-eligible person if it can be established that no group of more than 20% of the directors acts in concert in matters affecting the management of the corporation; and
- (c) if 50% or more of the directors are non-eligible persons the corporation is thereby deemed to be a non-eligible person.

It is apparent that the determination of whether a corporation is a non-eligible person will in many cases be subject to doubt. The Act has provided for an application which can be made for a determination based on information and evidence disclosed to the Minister as to whether a person is or is not a non-eligible person.

### (3) ACQUISITION OF CONTROL

The Act sets out the circumstances which give rise to an acquisition of control of a Canadian business enterprise.

Firstly, the Act contains the proposition that control of a Canadian business enterprise may be acquired either by the acquisition of voting shares of a corporation, or by the acquisition of all or substantially all of the property used in carrying on the business in Canada.

Secondly, the Act sets out certain presumptions as to whether control of a Canadian business enterprise has been acquired when voting shares of a corporation are the subject of the acquisition:

- (a) the acquisition by any person or group of persons of shares of a corporation to which are attached more than 50% of the voting rights, whether or not the shares of the corporation are publicly traded shall, unless the person or group of persons acquiring the shares had, at the time of the acquisition, control in fact of the corporation, be deemed to constitute the acquisition of control of any business carried on by the corporation;
- (b) the acquisition by any person or group of persons of less than 5% of the voting shares does not constitute an acquisition of control where shares in the target corporation are publicly traded;
- (c) the acquisition by any person or group of persons of 5% or more of the voting shares shall, unless the contrary is established, be deemed to constitute the acquisition of control of any business carried on by the target corporation where shares in the target corporation are publicly traded;
- (d) the acquisition by any person or group of persons of less than 20% of the voting shares does not constitute an acquisition of control if shares in the target corporation are not publicly traded;
- (e) the acquisition by any person or group of persons of 20% or more of the voting shares shall, unless the contrary is established, be deemed to constitute the acquisition of control of any business carried on by the target corporation where shares in the target corporation are not publicly traded;

In addition to the above presumptions, the Act states that control is not acquired by reason of:

- (a) the acquisition of shares by a person in the course of his business as a trader in securities;

- (b) the acquisition of shares under terms and conditions prescribed for persons whose business consists of providing venture capital in Canada (this exemption is examined in more detail below);
- (c) the acquisition of shares designed to safeguard an investor's rights with respect to an outstanding loan or shares held by the investor which are to be redeemed, and it is reasonable to expect that the target corporation will cease to be controlled by the investor in accordance with an agreement to that effect.

The Act also contains provisions relating to changes of control through amalgamations or by means of trust arrangements.

#### **(4) THE MEANING OF "CANADIAN BUSINESS ENTERPRISE"**

As mentioned above, the Act is directed toward screening acquisitions of control of Canadian business enterprises, whether by means of the acquisition of the voting shares of a corporation which carries on the Canadian business or by the acquisition of all or substantially all of the assets used in carrying on a business in Canada. The definition of "Canadian Business Enterprise" includes a business that is either a "Canadian business" or a "Canadian branch business".

The term "business" is defined to include any undertaking or enterprise carried on in anticipation of profits.

"*Canadian branch business*" is defined to mean a business carried on in Canada by a corporation incorporated elsewhere than in Canada that maintains one or more establishments in Canada to which employees of the corporation employed in connection with the business ordinarily report for work.

"*Canadian business*" is defined to mean a business carried on in Canada by:

- (a) an individual who is either a Canadian citizen or a person ordinarily resident in Canada;
- (b) a corporation incorporated in Canada that maintains one or more establishments in Canada to which employees of the corporation employed in connection with the business ordinarily report for work; or
- (c) any number of individuals or corporations or combinations of individuals and corporations if any one or more of those comprising that number or combination are either individuals described in paragraph (a) or corporations described in paragraph (b) who, either alone or jointly or in concert with one or more other individuals or corporations so described, control or are in a position to control the conduct of the business.

Considering the above definitions, it appears that the Act does not subject to the screening process acquisitions by non-eligible persons of business carried on in Canada by an individual or partnership who is a non-eligible person. The Committee understands that the federal government proposes to correct this technical deficiency in the Act at an early opportunity.

#### **(5) ESTABLISHMENT OF BUSINESS IN CANADA**

Section 3(4) of the Act states that a business is established in Canada only if there is an establishment in Canada to which one or more employees of the person or group of persons establishing the business report for work in connection with the business and the time at which a business is established in Canada is the time at which the first of such employees reports to work in connection with the business at such an establishment.

(6) PART OF A BUSINESS

It is important to note that the Act provides that a part of a business that is capable of being carried on as a separate business is a Canadian business enterprise. Accordingly, the acquisition by a non-eligible person of only part of the assets of a Canadian business enterprise would be subject to the review process if the assets acquired *could* be operated separately. This is so, even if in fact those assets never were nor ever will be operated as a separate business.

## VI. VENTURE CAPITAL EXEMPTION

The Act provides that control of a Canadian business enterprise is not acquired by reason only of the acquisition of shares of a corporation by a person whose ordinary business consists of providing, in Canada, venture capital, upon terms and conditions not inconsistent with such terms and conditions as may be prescribed by the Minister.

Terms and conditions for the Venture Capital Exemption were tabled in Parliament by the Minister on April 9, 1974.

For the purpose of the terms and conditions, an investor shall be considered to be in the business of providing venture capital in Canada where:

- (a) in the ordinary course of his business he makes available in Canada what is commonly known as venture capital;
- (b) he provides the venture capital substantially through the purchase of shares of common stock or through other unsecured investments or loans that are subordinate to all financing other than common and preferred shares in corporations;
- (c) he does not normally acquire a majority of the shares of the corporations carrying on Canadian businesses in which he invests;
- (d) he does not invest more than \$10 million in any single corporation carrying on a Canadian business;
- (e) no single venture capital investment at original cost normally constitutes more than 20 percent of his total venture capital portfolio; and
- (f) he normally sells the shares of any corporation in which he has purchased shares within five or ten years of their acquisition.

If the investor comes within the above description, he will be exempt from the screening process on acquiring shares of a Canadian business provided that he meets certain conditions and gives certain undertakings in connection with the investment.

There are three categories of investments which such an investor can make without being subject to review:

- (1) where the average annual net income of the target corporation in its three most recent fiscal years is below \$200,000;
- (2) where at least 50% of the investment is made in common shares allotted by the corporation to the investor;
- (3) where the average annual net income of the target corporation in its three most recent fiscal years is over \$200,000 *and* less than 50% of the investment is made in common shares allotted by the corporation to the investor.

If the investment made is one coming within category (1) or (2) above, the venture capital investor is obliged to reduce within 10 years of his investment his proportion of holdings of securities in the target corporation to a point where he holds less than 33½% of any class of securities to which voting rights attach and to cease to control in fact the Canadian business

enterprise. The investor is furthermore obliged to reduce within 13 years of the investment his holdings to a point where he holds less than 20% of any class of securities to which voting rights attach.

If the investment is one to which category (3) applies, the investor must reduce his holdings within 5 years of the investment to the point where he holds less than 15% of any class of securities to which are attached voting rights and he must cease to control the Canadian business enterprise. Within 7 years of the investment, the investor's holdings must be reduced to a point where he holds less than 10% of any class of securities to which are attached voting rights.

If the holdings of the investor are not reduced as required within the appropriate time limits, he must forthwith transfer sufficient securities to a trustee appointed by the Minister such that the investor's proportionate shareholdings are reduced to the required level. The trustee, at the earliest of the time the investor directs him to do so or the second anniversary of the expiration date of the relevant time period, is to sell the securities so transferred to him. The investor is responsible for all related fees and expenses of the trustee, and is entitled only to any dividends paid on the securities prior to their sale and to the net proceeds of the sale.

A venture capital investor, who but for the above exemptions would be subject to the review process under the Act for any particular investment, must, within 15 days of making an exempt investment, provide the Minister with highly detailed information concerning the investor, the Canadian business enterprise invested in, and the investor's plans for that enterprise. The information required is set out as a Schedule to the terms and conditions of the venture capital exemption. In addition, the investor must provide the Minister with written undertakings to comply with the conditions as to divestiture of sufficient securities to reduce his holdings to the required level within the appropriate time period. He must also undertake to supply the Minister with proof that the conditions of the investment have been complied with. Also, the investor must undertake to notify the Minister of any new arrangements made with the shareholders, directors or officers of the target corporations, any significant investments or loans that any person makes in or withdraws from the corporation, or any other information that the Minister may request.

## VII. LAND HOLDING ENTERPRISES

Section 3(9) of the Act provides that a person or group of persons or corporations that acquire and hold land do not by reason only of the holding of the land in the condition in which it was acquired or to improve the land for the personal enjoyment of the person or persons holding it or of the shareholders of the corporation holding it, carry on a business.

Guidelines dealing with the application of the Act to the real estate business were published in the Canada Gazette on April 6, 1974, and identify factors which may indicate whether a non-eligible person who acquires control of real estate is acquiring control of a Canadian business enterprise. These factors include the nature of the property, the circumstances relating to the transferor of property, and the circumstances relating to the transferee.

### (1) NATURE OF THE PROPERTY

The Guidelines make a distinction between "business property" and "circulating assets", and state that the transfer of assets referred to in the guidelines as "business property" may tend to be associated with the acquisition of a business, whereas the transfer of an asset referred to in the guidelines as a "circulating asset" may tend to be not associated with the acquisition of a business.

"Circulating assets" according to the guidelines may include things that are normally associated with "inventory". However, the acquisition of "circulating assets" is an acquisition of a business where they are all or substantially all of the property used in carrying on a particular

business. Also, an asset will not be treated as a "circulating asset" if it is "economically or commercially significant", and the guidelines deem the acquisition of an asset for a consideration in excess of \$10 million to be economically or commercially significant.

"Business property" according to the guidelines, may include such things as trade name, principal patents, trademarks, office and equipment where activity is conducted, goodwill, essential licenses, permits and contracts, services of existing management or employees, and lists of accounts payable, debts and liabilities.

With respect to "rental property", the guidelines state that the activity of earning rents from real estate on an economically or commercially significant scale usually involves elements that are associated with the carrying on of a business, and the acquisition of such a property is the acquisition of a business. The guidelines deem the earning of rentals from real estate to be economically or commercially significant if the gross value of the property from which rents are derived or its acquisition price exceeds \$10 million.

#### (2) CIRCUMSTANCES OF THE TRANSFEROR AND TRANSFeree

The guidelines are general in their description as to what circumstances of the transferor and transferee will give rise to an inference that a business is being disposed of. They provide that where a transferor is passive, or relatively inactive in relation to a property, the transfer of that property tends *not* to be associated with the disposition of a business, and that where there is no change in the nature of the activities and intentions of a transferor as a result of a transfer of property, the transfer may tend not to be associated with the disposition of a business. As for the transferee, the guidelines state that the use by the transferee of the property in an activity entirely different in nature from the activity in which it was used by the transferor, or the exercise by the transferee of a skill in connection with the use of the property that is entirely different in nature from the skill that was exercised by the transferor in connection with the use of the property tends, in both cases, not to be associated with the acquisition of a business.

#### (3) EMPLOYEES REPORTING FOR WORK

The guidelines state that whether employees report for work is not an essential factor in determining whether an activity is a business. Even if no employees are employed in connection with the real estate, the activity involving real estate may still be a business.

### VIII. REVIEW PROCEDURE

#### (1) NOTICE REQUIREMENT

Section 8(1) of the Act requires that every non-eligible person, and every group of persons any member of which is a non-eligible person, that proposes to acquire control of a Canadian business enterprise shall give notice in writing to the Foreign Investment Review Agency of such proposal in such form and manner and containing such information as is prescribed by the Regulations.

The Foreign Investment Review Regulations which have been promulgated outline the highly detailed information which must be filed with the Agency.

Once the second proclamation date has been pronounced, notice will have to be given to the Agency pursuant to Section 8(2) of the Act whenever a non-eligible person or group of persons proposes to establish a new business in Canada in an area which would be unrelated to any business then carried on in Canada by that non-eligible person or group of persons.

#### (2) MINISTER'S ASSESSMENT

Following receipt by the Agency of the notice, it is then referred to the Minister of Industry, Trade and Commerce for his review. The Minister is required by the Act to review:

- (a) the information contained in the notice;
- (b) any other information submitted to him by any party to the actual investment to which the notice relates;
- (c) any written undertakings relating to the investment given by any party thereto conditional upon the allowance of the investment in accordance with the Act; and
- (d) any representation submitted to him by a Province that is likely to be significantly affected by the proposed or actual investment to which the notice relates.

The above factors must be reviewed for the purpose of assessing whether or not in the Minister's opinion, having regard to the criteria enumerated in section 2(2) of the Act (set out above) the investment is or is likely to be of significant benefit to Canada.

#### **(3) MINISTER'S RECOMMENDATIONS**

The Minister on completion of his assessment, provided he has been able to complete his assessment within 60 days of the date of receipt by the Agency of the notice of the proposed investment, may recommend to the Cabinet that the investment be allowed if in the Minister's opinion the investment is or is likely to be of significant benefit to Canada.

The Minister may alternatively notify the Agency that he has been unable to complete the assessment or to make any recommendation to the Cabinet in connection therewith or that on his completion of the assessment he has been unable to recommend to the Cabinet that the investment be allowed. The Minister in so doing can in effect extend the time for consideration of the proposed investment indefinitely.

#### **(4) RIGHT TO MAKE FURTHER REPRESENTATIONS**

If the Minister does notify the Agency within 60 days that he has been unable to make any recommendation or to complete his assessment, the Agency shall if less than sixty days has elapsed since the date it received the notice of the proposed investment, send a notice to the investor of the Minister's decision and advise him of his right to make further representations. At this stage the proposed investor has thirty days in which to notify the Agency that he wishes to avail himself of his right to make representations and failing such notice the Minister is to submit the matter to the Cabinet. If the proposed investor replies within the 30 days that he wishes to make representations, the Minister must afford each party who replied a reasonable opportunity to make further representations and to give written undertakings relating to the proposed or actual investment conditional upon the allowance of the investment. In addition, the Minister may consult, at the request in writing of any party to the proposed investment, with any person or authority named in the request. At such time as all representations and consultations contemplated have been concluded the Minister shall in the light of the further representations and consultations reconsider his opinion. When, as a result of such reconsideration he concludes that the investment is or is likely to be of significant benefit to Canada he shall recommend to the Cabinet that the investment be allowed, but where he does not reach that conclusion he shall recommend to the Cabinet that the investment not be allowed.

#### **(5) CABINET DECISION**

On receipt by the Cabinet of the Minister's recommendation with respect to an investment the Cabinet shall consider the recommendation and the summary of the information provided by the Minister. The Cabinet must then consider the factors enumerated in Section 2(2) of the Act and if it concludes that the investment is or is likely to be of significant benefit to Canada the Act provides that the Cabinet shall by order allow the investment, and where it does not reach that conclusion the Cabinet shall by order refuse to allow the investment.

The Cabinet is not bound by the recommendation of the Minister and is required by the Act to determine on its own whether the proposed investment meets the criteria established by the Act.

If the Minister recommends to the Cabinet within sixty days that the proposed investment be allowed and the Cabinet is unable to decide whether the proposed investment is or is likely to be of significant benefit to Canada, the Cabinet may direct the matter back to the Minister to proceed with further discussions with the proposed investor.

#### (6) 60 DAY LIMIT

In any case where sixty days have elapsed since the date of receipt by the Agency of a notice of a proposed investment and no notice is sent to the proposed investor within that sixty days, the Cabinet is deemed for all purposes of the Act to have allowed the investment to which the notice relates.

### IX. REMEDIES

Pursuant to section 19 of the Act, a Superior Court (in Ontario, the Supreme Court of Ontario) if it is satisfied that a non-eligible person or group of persons any member of which is a non-eligible person is about to make or has made a proposed or actual investment which the Cabinet has not by order allowed or has not been deemed to have allowed, or where the terms and conditions upon which the investment was allowed by the Cabinet have not been adhered to, on the application of the Minister, may,

- (a) if at the time the proposed investment has not yet been made enjoin that person or group of persons from making the proposed investment; and
- (b) if at that time the investment has already been made enjoin that person or group of persons from taking any particular action specified in the order in relation to the actual investment.

Furthermore, the Superior Court may on the application of the Minister, make an order to render an actual investment made in contravention of the Act nugatory. The Act gives the Court the power to revoke the voting rights of shares and to order dispositions of shares or any other property acquired. In addition, if shares are held by a person outside Canada and that person fails to comply with an order of the Court, the Court may by order vest such shares or property in a trustee named by it and the trustee may thereupon do all things necessary to give effect to the order of the Court including disposing of shares or property received by him.

It is an offence under the Act for any person to make an actual investment in circumstances in which notice of the proposal to make such investment was required to be given and who knowingly failed to give such notice. The penalty for such an offence is prescribed as a fine not exceeding \$5,000.00.

The Act provides that if a corporation is guilty of an offence under the Act, any officer, director or agent of the corporation who directed, authorized, assented to, acquiesced in or participated in the commission of the offence is a party to and guilty of the offence and is liable on conviction to the punishment provided for the offence whether or not the corporation has been prosecuted or convicted therefor.

## Analysis and Recommendations

### I. INTRODUCTION

There are a number of problems in connection with the operation and enforcement of the Foreign Investment Review Act. Many of the problems are technical in nature. Although the technical problems are important, the Committee confines itself to a consideration of the broad questions, particularly the relationship between the Act and Provincial economies. There are basically three such broad questions. Firstly, how are the objects of the Act to be coordinated with Provincial economic policies? Secondly, how should expansions by foreign

controlled firms into related businesses be treated? Thirdly, precisely how are the economic criteria set out in the Act to determine "benefit to Canada" to be interpreted? We shall consider each of these issues in turn.

## II. PROVINCIAL CO-ORDINATION

Section 2(2) (e) of the Act provides that the criteria in determining whether an investment is likely to be of significant benefit to Canada include the compatibility of the investment with "national industrial and economic policies, taking into consideration industrial and economic policy objectives enunciated by the government or legislature of any province likely to be significantly affected" by the investment. Although the Act specifically recognizes compatibility with provincial economic policies as an important element in determining the desirability of the foreign investment, there is no procedure established as to how the federal government is to determine what provincial economic policies are; there is no guidance as to what weight those policies are to be given in relation to the other criteria established by the Act; there is no procedure established for communication between the federal government and the provinces. Indeed, the Act does not contain any requirement on the part of the Foreign Investment Review Agency, the federal government, or the investor to notify the provinces of the investment. The Committee understands, however, that the Minister has stated that the provinces likely to be significantly affected by the investment will be notified.

All these considerations suggest that there is an important role for the provinces in connection with the implementation and execution of the screening process established by the Act. The Committee is concerned that the nature of this provincial role has not been defined in the Act or elsewhere. Accordingly, if the provinces wish to exercise a role in connection with the screening process, it is up to the provinces to define the nature of that role.

In the absence of initiatives on the part of the provinces to define their role in relation to the execution of the screening procedure, the Committee is concerned that an *ad hoc* approach will develop in connection with the provincial inputs into the review process. The Committee is of the view that the impact of foreign direct investment on provincial economies is an important one. Accordingly, Ontario's inputs into the review process should be made on a systematic and coordinated basis rather than in an *ad hoc* way.

### 1. PROVINCIAL CO-ORDINATION MECHANISM

In order to co-ordinate the role of the Province of Ontario in connection with the execution of the screening process, to assist in the development and enunciation of provincial industrial and economic objectives and to define the role for direct investment within the context of those objectives, the Committee considered the identification of an existing body or the establishment of a new body within the Government of Ontario to perform those functions.

This body would have an important role in enunciating provincial economic policy objectives at an early stage so that when proposed investments become subject to the screen, there will have been developed a coordinated policy in the context of which particular investment proposals can be evaluated from the provincial economic prospective. Moreover, an enunciation of policy objectives will put prospective foreign investors on notice as to what will be required of them to obtain provincial approval.

The Committee visualizes that this body will be a continuing one to monitor on an ongoing basis provincial economic goals and policies and the relationship of foreign investment to those goals.

The Committee has sought to identify where this body would most appropriately be placed within the structure of the Government of Ontario. In view of the nature of the functions to be performed by this body, the Committee considered, among others, the Ministry of Treasury, Economics and Intergovernmental Affairs and the Ministry of Industry and Tourism. However, the Committee is of the view that the functions of this body will

encompass many of the areas of responsibility of most of the Ministries in the government structure. Moreover, these functions would involve consultation, close cooperation and co-ordination with most of the Ministries. Accordingly, the Committee has identified the Provincial Secretariat for Resources Development as the appropriate location for the kind of body which the Committee has in mind. The Provincial Secretariat already has close contact and liaison with all Ministries whose responsibilities involve provincial economic and industrial policies.

The Committee would emphasize that the Secretariat, in performing its role in connection with the review process under the Foreign Investment Review Act, would coordinate the position and reaction of all Ministries with an interest in a proposed investment by non-eligible persons.

The formal contact between the federal government and the government of Ontario would take place through the Provincial Secretariat. This body should be notified immediately of an application by a foreign investor to the federal Foreign Investment Review Agency, so that the Provincial Secretariat can begin the provincial review at the same time as the federal Agency. We shall consider the issue as to when Ontario is likely to be significantly affected by a foreign investment and the notification procedures below.

The Provincial Secretariat in cooperation with other Ministries would evaluate proposed investments in relation to provincial industrial and economic objectives. It would work closely with the federal Agency in this connection and in bargaining with the investor to increase the benefits to Canada and Ontario. Ultimately, the Provincial Secretariat would communicate to the federal Agency the provincial position in terms of whether or not the investment is compatible with Ontario economic and industrial policies.

**THE COMMITTEE RECOMMENDS THAT THE PROVINCIAL SECRETARIAT FOR RESOURCES DEVELOPMENT, IN CLOSE CO-OPERATION WITH OTHER MINISTRIES OF THE GOVERNMENT OF ONTARIO, BE GIVEN THE RESPONSIBILITY OF PERFORMING THE FOLLOWING FUNCTIONS:**

1. TO ASSIST IN THE DEVELOPMENT AND ENUNCIATION OF PROVINCIAL INDUSTRIAL AND ECONOMIC OBJECTIVES AND TO DEFINE THE ROLE OF FOREIGN DIRECT INVESTMENT WITHIN THE CONTEXT OF THOSE OBJECTIVES;
2. TO CO-ORDINATE THE ROLE OF THE PROVINCE IN CONNECTION WITH THE EXECUTION OF THE SCREENING PROCESS;
3. TO RECEIVE NOTIFICATION OF INVESTMENTS BY NON-ELIGIBLE PERSONS, TO EVALUATE THOSE INVESTMENTS WITH REFERENCE TO ONTARIO'S INDUSTRIAL AND ECONOMIC POLICIES, AND ON THE BASIS OF THAT EVALUATION TO COMMUNICATE TO THE FOREIGN INVESTMENT REVIEW AGENCY AND TO THE INVESTOR ONTARIO'S POSITION WHETHER OR NOT THE INVESTMENT IS COMPATIBLE WITH ONTARIO ECONOMIC AND INDUSTRIAL POLICIES; AND
4. TO REPRESENT ONTARIO IN NEGOTIATIONS WITH THE INVESTOR WHERE APPROPRIATE.

In connection with the provincial review of investments, it is important to note the time limits under the Act. The federal Cabinet is deemed to have allowed the investment sixty days after the date of receipt by the Foreign Investment Review Agency of a notice of a proposed investment, unless a notice by the Minister is sent to the investor within that time. Accordingly, it is important for the provincial review to be undertaken quickly, in order that Ontario's position in relation to the particular investment be before the federal Cabinet when it considers the investment. If it is not possible for the Provincial Secretariat

to conduct its review well within the sixty-day period, the Provincial Secretariat could notify the federal Minister to direct the Foreign Investment Review Agency to send the notice to the investor in order to stop the sixty-day time limit. The time constraints under the Act render it imperative for the Provincial Secretariat to receive notification of the investment at the earliest opportunity. Notification procedures will be considered below.

## 2. WHEN IS ONTARIO SIGNIFICANTLY AFFECTED?

One important factor involved in considering the role of the provinces in connection with the screening process established by the Act is the determination of the circumstances in which a province is likely to be "significantly affected" by the investment. There are in substance two approaches which Ontario could take in this connection. It could take the position of leaving it to the federal authorities to determine whether Ontario is likely to be significantly affected by a particular investment and if so, to notify the Provincial Secretariat. Alternatively, the Province could take the position that it should be in the position to determine whether or not a particular investment is likely to affect Ontario significantly.

The Committee is convinced that Ontario has an important interest in exercising its role in connection with the screening of foreign direct investment and it would be inappropriate simply to rely on the federal determination of which investment significantly affects Ontario. Moreover, the Committee is of the view that, with minor exceptions, all new foreign direct investments in Canada are likely to affect Ontario significantly. An example will illustrate this point. Even if not a single dollar finds its way into Ontario in connection with the proposed establishment by a non-eligible person of a plant to manufacture widgets in another province, that investment is likely to affect Ontario in a number of ways including the following: it is likely that the investor is hopeful of selling at least some of his output in Ontario; the Canadian industrial structure and the market for widgets may be such that, the widget plant having been established in another province, it would be inappropriate to establish another widget plant in Ontario or elsewhere in Canada; or Ontario may have been on the threshold of establishing a widget plant under Canadian ownership and control in circumstances where only one more widget plant of optimum scale is indicated. The point is that all foreign direct investments in Canada have the potential of affecting Ontario significantly. Accordingly, the Committee has concluded that the Provinces should be provided with copies of all notices filed with the federal Agency under the Foreign Investment Review Act. It should be for the Provinces to determine whether they wish to make representations to the federal government or otherwise exercise their role in connection with particular investments.

A requirement to file with Ontario copies of all notices and material filed under the Act with the federal Agency would not be an undue burden on the non-eligible person. Such a requirement would involve little more than the non-eligible person making copies of the federal filings and forwarding them to the Ontario Government.

In view of these considerations,

THE COMMITTEE RECOMMENDS THAT ONTARIO REQUIRE THAT ALL NOTICES AND ALL MATERIAL FILED WITH THE FOREIGN INVESTMENT REVIEW AGENCY UNDER THE FOREIGN INVESTMENT REVIEW ACT BE FILED CONTEMPORANEOUSLY WITH THE PROVINCIAL SECRETARIAT FOR RESOURCES DEVELOPMENT BY:

1. NON-ELIGIBLE PERSONS CARRYING ON BUSINESS OR PROPOSING TO CARRY ON BUSINESS IN ONTARIO; AND
2. NON-ELIGIBLE PERSONS WHO ACQUIRE CONTROL OF A BUSINESS ENTERPRISE CARRYING ON BUSINESS IN ONTARIO.

In view of the sixty day time limitation contained in the Act, it is important that Ontario commence to develop its position with respect to the proposed investment at an early

stage. Accordingly, care must be taken to ensure that communications between the Agency and the Provincial Secretariat commence immediately after the Notice has been filed by the non-eligible person.

### 3. PROVINCIAL REVIEW

After the Provincial Secretariat for Resources Development has been notified of an investment by a non-eligible person the Provincial Secretariat will determine whether it is appropriate for it to take a role in the screening process in connection with that investment. If the Provincial Secretariat determines that input from Ontario is appropriate, it will so inform the federal Agency and maintain close contact with and co-ordinate its activities with the federal Agency. The Provincial Secretariat will immediately commence its review of the investment in relation to provincial economic and industrial policies.

In executing the provincial role in the screening process, the Provincial Secretariat will notify all those Ministries of the government which may have an interest in the particular investment. The Provincial Secretariat will co-ordinate the reactions of all Ministries. In particular, the Provincial Secretariat will work in close co-operation with the Ministry of Treasury, Economics and Intergovernmental Affairs in developing a position whether or not the investment is compatible with the economic and industrial policies of Ontario.

In addition, the Provincial Secretariat would communicate and co-ordinate its review activities with those of other provinces which have taken a role in connection with the review of the investment.

During the review process, the Provincial Secretariat, where appropriate, would become involved together with the federal Agency in the negotiations with the non-eligible investor in formulating and developing conditions to the approval of the proposed investment. The activities of the Provincial Secretariat will ensure that a provincial perspective is represented in negotiations with foreign investors. In its review of the investment the Provincial Secretariat will take into account undertakings from the proposed investors in connection with the investment.

The Provincial Secretariat, after its review of the proposed investment has been completed, will advise the federal Agency whether or not the proposed investment is compatible with provincial economic policies.

It was pointed out above that in view of the time limitations contained in the Foreign Investment Review Act, the provincial review process must be conducted quickly. If it is not possible to do so, then the Provincial Secretariat could so notify the federal government and request the Minister of Industry, Trade and Commerce to direct the federal Agency to forward to the proposed investor a notice to that effect. In this way the sixty day time limitation would cease to apply.

## III. EXPANSION INTO RELATED BUSINESSES AND EXISTING OPERATIONS OF FOREIGN CONTROLLED FIRMS

As was pointed out above, the Foreign Investment Review Act applies only to takeovers of Canadian businesses and the establishment of new businesses, including expansions of existing foreign controlled enterprises into businesses unrelated to businesses already carried on by the enterprise. The Act does not apply to expansions, except by way of takeover, by foreign controlled enterprises into businesses which are related to the activities already undertaken by the enterprise. The small business exception will also exempt from the review a takeover of a small business where its business activity is related to the business carried on in Canada by the non-eligible person. The Committee is of the view that the failure to subject related expansions and takeovers of small businesses in related businesses to the review is a serious gap in the application of the review process.

In the view of the Committee, the principal purpose of establishing a screening process is to subject foreign direct investment in Canada to a review procedure in order to ensure that the investment is compatible with Canada's economic interests as reflected in the criteria set out in section 2(2) of the Act. On the theoretical level, the Committee can see no distinction between new foreign direct investment in the form of expansions into unrelated businesses and new foreign direct investment in the form of expansions into related businesses.

The Minister of Industry, Trade and Commerce tabled the following preliminary guidelines in the House of Commons on December 20, 1973 describing what would be considered non-reviewable extensions into related businesses:

"Related Business

The following are intended to be general guidelines but not precise rules, on the subject of when a business is related or not related to another business. The general approach being suggested is that a new business may be related to another business if:

- (a) the new business produces a product or service that is directly substitutable for an existing product or service produced by the investor in Canada;
- (b) the new business produces a product to be used as an input for an existing process or activity of the investor, provided that a substantial proportion of the output of the new business is used as an input for the existing process or activity;
- (c) the current production of the investor is used as an input in the production activity of the new business provided the planned volume of production of the new item is not so large as to re-orient in a substantial way the activities of the investor;
- (d) in the case of a service business, any business which is complementary to an existing business of the investor: e.g., a delivery service for a retailer, a warehouse for a wholesaler, a repair establishment for a trucking company;
- (e) the new business uses an existing or similar technical process to that already used by the investor in Canada but for the production of a different product offered to the same or different users or customers.

In addition, a business would *not* be considered to have moved into a new line of business and be subject to review by reason only of producing a different product mix in its existing plant with no significant changes being made in its existing plant and equipment."

It is clear from these guidelines that there is considerable scope for existing foreign controlled firms to expand their activities without being subject to review.

In connection with expansions into related businesses by foreign controlled enterprises, the Gray Report made the following observations:

"... [E]ven if new foreign direct investment were to be entirely excluded from Canada, foreign control would continue to grow in absolute terms, due both to internal generation of funds by foreign controlled companies and by their ability to raise external funds in the Canadian capital markets. . . . [I]f the Government should wish to deal with the rate of growth in foreign control completely, it would not be sufficient to look exclusively at new direct investment. It would also be obliged to take account of the finances obtained from Canadian capital markets and the application by the individual firms of the internal cash-flow."<sup>1</sup>

These observations were based on data compiled by Statistics Canada indicating sources of expansion funds for foreign controlled enterprises. The data indicate that in the period 1960

<sup>1</sup>*Foreign Direct Investment In Canada*, (Gray Report), Government of Canada, Information Canada, Ottawa, 1971, p. 26.

to 1967, retained earnings accounted for 37.6% of financing for expansion or \$4,124 million in absolute terms.<sup>2</sup> If capital consumption and depletion allowances were taken into consideration the percentage is in the order of 80 to 90%.<sup>3</sup> The Committee pointed out in its Report on the Capital Markets that the great bulk of funds used by Canadian business enterprises are not obtained by recourse to the capital markets but instead are internally generated. The Committee has found that foreign owned enterprises retain a substantial proportion of earnings for reinvestment within the firm.<sup>4</sup>

A large proportion of internally generated funds are used to finance expansions into related businesses, particularly when considered broadly as do the preliminary guidelines tabled by the Minister pursuant to the Foreign Investment Review Act. These expansions, except by way of takeover, are not subject to review under the Act.

The expansion of existing foreign controlled enterprises into related businesses is an important element of new foreign direct investment. The extent of foreign control of Canadian economic activity that currently exists has been considered elsewhere in this Report and in the Interim Reports of the Select Committee. This represents a very large and important base from which expansions of foreign control can take place both through financing obtained from Canadian capital markets and through internally generated funds.

It is important to note that funds generated internally within the foreign controlled enterprises are an element of Canadian savings as much as is financing obtained through Canadian capital markets. While funding obtained by foreign controlled firms through the capital markets are subject to the regime of the capital markets, funding obtained and applied internally within the firm is subject to no such external regime. Accordingly, if Canada chooses as it has under the Foreign Investment Review Act to screen foreign investment in Canada in the form of takeovers and expansions in unrelated areas, to be logically consistent it is necessary to review expansions in related businesses. This is especially so in view of the fact that such expansions are in large measure financed internally and not subject to the regime of the Canadian capital markets.

Based on the above analysis, the Committee has concluded that the failure of the Foreign Investment Review Act to subject expansions in related businesses by foreign controlled firms is a major gap which ought to be remedied.

The Committee notes there are a number of arguments in favour and a number of arguments against screening major new investments by existing foreign controlled firms. The Gray Report listed the arguments on both sides.<sup>5</sup> The Committee has considered these arguments and has concluded that, on balance, the benefits to be achieved from reviewing existing firms outweigh the costs. The Committee is convinced that both the foreign and Canadian business communities understand that the objective of the review process under the Foreign Investment Review Act is to enhance the economic benefits to Canada of foreign direct investment and not to block investments which contribute to Canadian economic development.

The Committee considered several ways in which the scope of the Foreign Investment Review Act might be extended to include expansion in related businesses other than by way of takeover. Two basic approaches were considered, namely screening all foreign controlled firms, subject to tests of economic significance, on the one hand, and screening only major expansions in related businesses.

The Gray Report noted that the economic arguments in favour of screening existing foreign controlled firms, whether or not they are expanding, can be said to be stronger than the arguments for screening new foreign direct investments only:<sup>6</sup>

<sup>2</sup>*Ibid.*, p. 25.

<sup>3</sup>Ontario Interim Report of the Select Committee on Economic and Cultural Nationalism, *Capital Markets, Foreign Ownership and Economic Development*, Queen's Printer, Toronto, 1974, pp. 7-8.

<sup>4</sup>*Ibid.*, p. 8.

<sup>5</sup>Gray Report, pp. 469-470.

<sup>6</sup>*Ibid.*, p. 472.

1. The bargaining position of Canada is stronger with existing firms because they have established market positions and investments;
2. Failure to review existing firms gives them a preference over new foreign investors;
3. In many industries, most of the potential foreign investors already have a position in Canada; therefore, in the absence of applying the screen to existing firms there is little likelihood that the screening process will have much impact in those industries;
4. The potential benefits are great since there are a large number of existing foreign controlled firms.

From the perspective of economic nationalism, the Committee considered that foreign controlled firms which are not growing may be the first ones which should be subject to a review in the context of Canadian economic and industrial policies. Accordingly, the Committee has concluded that the review process should be extended to encompass periodically the major foreign controlled firms, whether they are expanding or not, in each industry in order to ensure that these firms are meeting Canadian economic objectives. Although the application of the screening process to foreign controlled firms that are not expanding might be considered by some as an unwarranted intervention by the government into the private business sector, the Committee has concluded that the potential benefits in terms of improving the performance of those firms in relation to Canadian economy warrants the extension of the review process to cover those firms.

Extending the application of the Act to cover existing foreign controlled firms, whether or not they are expanding, may create administrative problems in terms of the large number of firms that would become subject to the review. To avoid insurmountable problems in this regard, the Committee would suggest that only very large firms become subject to a periodic review. Smaller firms could be made subject to a review when notified by the Minister.

**TABLE I**  
**NON-FINANCIAL INDUSTRIES, 1971**  
**NUMBER OF FIRMS BY ASSETS SIZE**

	Foreign Controlled	Canadian Controlled	Other*	Total
Under \$1,000,000.....	2,550	28,074	111,854	142,478
1,000,000 - 4,999,999.....	2,077	5,827	—	7,914
5,000,000 - 9,999,999.....	526	613	—	1,139
10,000,000 - 24,999,999.....	377	326	—	713
\$25,000,000 or over.....	353	273	—	626
	5,883	35,113	111,854	152,850

\*These firms were not required to report under CALURA.

Source: CALURA, *Report for 1971, Part 1*, Statistics Canada, pp. 166-171.

Table I sets out the number of firms reporting under CALURA in 1971 by asset size. Of the 5,883 foreign controlled firms reporting, only 353 reported total assets of \$25,000,000 or over. A total of 730 foreign controlled firms reported assets in excess of \$10,000,000. To

subject foreign controlled firms having assets in excess of \$25,000,000 to a periodic review would not pose insurmountable administrative difficulties. This would mean that about 350 firms would be reviewed periodically.

It is to be noted that the definition of control used in the CALURA data and that used in connection with the Foreign Investment Review Act differ significantly. Under CALURA, a corporation is considered to be foreign controlled if 50 per cent or more of its voting rights are known to be held outside Canada and/or by one or more Canadian companies which are foreign controlled.<sup>7</sup> Under the Foreign Investment Review Act, the definition of foreign control is somewhat more stringent as we have noted above.<sup>8</sup> Moreover, some firms with Canadian operations are not required to report under CALURA.<sup>9</sup> Accordingly, it can be expected that the number of foreign controlled firms under the definitions of control contained in the Foreign Investment Review Act with assets in excess of \$25,000,000 would be somewhat larger than 353 firms of that assets size reporting under CALURA in 1971. Nevertheless, the Committee does not anticipate that the number of firms of that asset size would be unmanageable in terms of a periodic review.

In view of the above considerations,

THE COMMITTEE RECOMMENDS THAT THE APPLICATION OF THE FOREIGN INVESTMENT REVIEW ACT BE EXTENDED AS FOLLOWS:

- (i) FOREIGN CONTROLLED FIRMS HAVING GROSS ASSETS OF \$25 MILLION OR MORE SHOULD BE SUBJECT TO AN ANNUAL REVIEW.
- (ii) FOREIGN CONTROLLED FIRMS HAVING GROSS ASSETS LESS THAN \$25 MILLION SHOULD BE SUBJECT TO REVIEW ONLY WHEN NOTIFIED BY THE MINISTER; IN NO EVENT SHOULD SUCH FIRMS BE SUBJECT TO REVIEW MORE THAN ONCE IN ANY ONE YEAR.

The Committee visualizes that the review of the operations of foreign controlled firms with assets of \$25 million or more would take place within the context of the industrial strategies which the Committee has recommended be developed and within the context of the criteria set out in section 2(2) of the Act. It is in this connection that the development of detailed, well-articulated industrial strategies is of critical importance.

The review of firms with gross assets less than \$25 million would proceed in the same context. For example, if a firm in this asset group proposes an expansion in a related business, the Minister may wish to review its existing operations to ensure that the planned expansion and the anticipated operations of the firm are compatible with the industrial strategies and are otherwise of significant benefit to Canada. Even if there is no expansion planned, it may be appropriate for the Minister to subject the operations of a particular foreign controlled firm to a review to determine whether those operations are of significant benefit to Canada.

The Committee has considered the development of appropriate sanctions in relation to the review of existing foreign controlled firms. In this connection, the Committee visualizes a bargaining process between the Foreign Investment Review Agency and the firm. To the extent that the activities of the firm could be improved in terms of the significant-benefit-to-Canada criteria, the Committee contemplates that the bargaining process will yield undertakings by the firm to meet those criteria. In connection with proposed new investments in related businesses, the same remedies now provided by the Act in connection with takeovers and expansions into unrelated business would appear to be adequate.

In relation to the existing operations of foreign controlled firms new remedies would have to be developed. If the activities of the firm do not conform to the industrial strategies or if

<sup>7</sup>CALURA, *Report for 1968, Part I*, Statistics Canada, p. 22.

<sup>8</sup>See *supra*, pp. 7-11.

<sup>9</sup>See CALURA, *Report for 1968, Part I*, Statistics Canada, pp. 15, 16.

those activities otherwise do not conform to the significant-benefit-to-Canada criteria and the firm is not prepared to undertake to make its activities conform, the Committee is of the view that a wide variety of sanctions should be available to the Minister. These should include an order limiting the growth of the firm and selective removal of tariffs where that may be appropriate.

It is to be noted that the above recommendation does not contemplate an exemption from the review process of takeovers of a small business. Even if the activity of the small business is related to the business now carried on by the non-eligible investor, a takeover of the small business should be subject to review. The Committee notes that it is frequently the small businesses of today which ultimately grow into large enterprises. Their future growth may be based on special technology or skills which it possesses. The Committee is convinced that the review process should in any event be applied to takeovers of small businesses, whether the activity of the business taken over is related or unrelated to the business of the non-eligible investor. Accordingly,

WHETHER OR NOT THE FOREIGN INVESTMENT REVIEW ACT IS EXTENDED TO COVER THE OPERATIONS OF EXISTING FOREIGN CONTROLLED FIRMS, THE COMMITTEE RECOMMENDS THAT THE REVIEW PROCESS BE APPLIED TO TAKEOVERS OF ALL FIRMS, WHETHER OR NOT THOSE FIRMS ARE SMALL BUSINESSES AND REGARDLESS OF WHETHER THE ACTIVITY OF THE SMALL BUSINESS IS RELATED OR UNRELATED TO THE BUSINESS OF THE NON-ELIGIBLE PERSON.

An alternative approach to screening the existing operations of non-eligible persons which the Committee considered was to subject "major" expansions in related businesses to the screening process. The Committee considered what should constitute a major expansion for purposes of determining whether an expansion should be subject to the review process. In this connection, the Committee contemplated the establishment of threshold limits beyond which an expansion in a related business would become subject to the screen. Specifically, the threshold limits would be related to estimated increases due to the proposed expansion in gross assets after depreciation. This test would apply only to individual major expansions planned by foreign controlled firms.

Many businesses expand, in the nature of things, marginally each year with or without conscious plans on the part of the enterprise. It is this kind of expansion which, as a practical matter, is most difficult to screen. On the one hand, it must be recognized that businesses do grow over time and that it is not necessarily in the economic interest of Canada to place impediments on this kind of growth. On the other hand, growth of this nature represents, over time, a substantial proportion of the growth of foreign direct investment in Canada.

The Committee also recognizes that once the growth has taken place it is impractical, if not folly, to attempt to undo such growth in foreign investment. However, this is not to say that substantial growth in the past cannot be used as a trigger to subject the foreign controlled enterprise to a review of their plans in the future.

Accordingly, the Committee considered as an approach, that the Foreign Investment Review Act be extended to include "Proposed Individual Major Expansions" by non-eligible persons into related businesses and "Major Expansions over Time" of non-eligible persons in related businesses. "Proposed Individual Major Expansions" would be defined to include proposed investments in related businesses which are estimated to have the effect of increasing gross assets by a threshold dollar amount or proportion after the investment becomes fully operational. "Major Expansion Over Time" would be defined to include an actual growth in gross assets less depreciation in any fiscal period by a threshold dollar amount or proportion.

Proposed individual major expansions would be subject to the same review procedure and the same sanctions as are takeovers and expansions into unrelated businesses. Major expansions

over time would subject the enterprise to a review of its proposed future activities. If those activities are not likely to be of significant benefit to Canada and the non-eligible person is not willing to undertake to alter his operations, then the average annual rate of growth in gross assets and gross revenue should be limited to the average annual growth rate over the immediately preceding five years.

There are several problems with this approach. In terms of proposed individual major expansions, the test would have to rely to a large extent on estimates made by the non-eligible person. As estimates in terms of the future economic impact of an investment project are perforce a judgmental matter, it may not be appropriate to found the test on such estimates. To be sure, the above approach does provide a check to the estimates of the foreign investor: if the investor estimates that his proposed individual major expansion does not increase gross assets by the threshold dollar amount or proportion which increase would subject the proposed expansion to the review, and it turns out that the expansion when it becomes fully operational, does in fact increase his gross assets by more than the threshold, the expansion would become a major expansion over time under the above test and accordingly subject the non-eligible person to the screen. Nevertheless, the fact remains that the investment has been made and cannot practically be undone. Another problem with this approach is that it is based on definitions of major expansions which will of necessity be exceedingly complex and difficult to administer.

However, the major difficulty which the Committee has identified in connection with this approach is that the review process would apply only to expanding foreign controlled firms. It does not review the operations of firms that are not expanding. Accordingly, the Committee has recommended that the first approach be adopted, namely extending the review process to cover the existing Canadian operations of non-eligible persons.

One of the major issues concerning the administration of the Foreign Investment Review Act

#### IV. ECONOMIC CRITERIA

involves the interpretation and application of the benefit-to-Canada criteria set out in Section 2(2) of the Act. How should those criteria be interpreted? Which criteria should be emphasized?

The Committee considered two basic approaches. On the one hand the criteria could be interpreted narrowly to relate only to the particular investment under review. On the other hand, they could be considered broadly in the sense that all the Canadian operations of the non-eligible investor come under review. The latter approach would mean that the screening process would be used to "get a handle" on existing operations, as well as the new investment, in order to encourage the non-eligible person to structure his entire Canadian operations in such a way that they are more compatible with Canadian economic needs.

The Committee recommended above that the scope of the Act be extended to cover the existing operations of foreign controlled firms. This means that the economic criteria be interpreted broadly. However, the recommendation of the Committee would periodically review only the very large firms while the operations of relatively smaller firms would be screened only when the Minister so notifies the firm.

In this connection, the Committee is of the view that a takeover or an expansion into an unrelated business by a non-eligible person would be an appropriate opportunity to review the entire Canadian operations of the non-eligible person. The Committee takes this position because it considers that screening of a new investment must be done in the context of the total Canadian operations of the investor in order to determine fully the economic impact of the new investment. In addition, the review of the new investment is an opportune point in time at which to ensure that the operations of the non-eligible investor are of significant benefit to Canada. For example, the proposed new investment could be allowed, where appropriate, on the condition that the non-eligible investor add or expand research and development and design capability in Canada, that he expand exports, that the Canadian operations develop a greater degree of

managerial and operating autonomy and generally to compensate for truncation of the entire Canadian operations of the non-eligible investor.

The screening process would be used to ensure that new manufacturing facilities are more than simply miniature replicas of the foreign operations of the investor, that new resource developments are developed with a view to local processing and fabrication and to secure other kinds of undertakings by the non-eligible investor in connection with his entire Canadian operations.

Accordingly, with a view to implementing the above recommendation of the Committee to extend the scope of the Foreign Investment Review Act,

**THE COMMITTEE RECOMMENDS THAT THE ECONOMIC CRITERIA CONTAINED IN THE FOREIGN INVESTMENT REVIEW ACT BE INTERPRETED BROADLY TO ENCOMPASS EXISTING CANADIAN OPERATIONS OF THE NON-ELIGIBLE INVESTOR WITH A VIEW TO SECURING UNDERTAKINGS FROM THE INVESTOR IN CONNECTION WITH ALL HIS CANADIAN OPERATIONS IN ORDER TO RENDER THOSE OPERATIONS OF MORE BENEFIT TO CANADA.**

In this connection, the Committee visualizes that the review procedure under the Act would be used as a corrective mechanism to compensate for underdevelopments within the foreign controlled sector directed towards the evolution of mature enterprises in this sector.

With a view to crystallizing the above considerations, the Committee sets out below its views in terms of the factors to be considered under each of the economic criteria to determine significant benefit to Canada set out in paragraphs (a) to (e) of Section 2(2) of the Act:

#### **(a) 1. LEVEL OF ECONOMIC ACTIVITY IN CANADA**

The Committee considers that the economic activity of the foreign controlled enterprises is among the important benefits to be achieved from the foreign direct investment. However, it is to be noted that a new foreign investment or expansions of existing firms can have disruptive effects on established firms within the industry. Such factors must be considered and accounted for in the review process.

Another factor which must be considered in this connection is whether the new investment will involve a strain on existing infrastructure. In other words, will the new investment or expansion involve potentially large public outlays to develop infrastructure, such as roads, hydro electric facilities and the like?

Regional economic development considerations also become important in connection with the review of foreign investment. Does the new investment promote federal and provincial regional development goals?

#### **2. NATURE OF ECONOMIC ACTIVITY IN CANADA**

Questions such as the following need to be considered: Does the investment conform to resource development policies? Does it promote manufacturing, particularly in terms of high skill content of employment, research and development, and the like? What are the implications of the investment in terms of the balance between manufacturing and the natural resources sector? What are the export and import implications of the investment? In this connection it is necessary to consider the levels and the kinds of imports and exports in terms of the skill content of employment, R & D and the like.

#### **3. EMPLOYMENT**

What effect does the investment have on the level of employment? Does the investment use labour with a high degree of skill? Does the investment contemplate manpower training? In this connection the question of location becomes important. Is the foreign investor locating in an area of relatively high or low employment? Over time, what is the relationship between

the employment effects of the investment and technological development? For example, is it likely that the increased employment resulting from the investment will be relatively short-term in view of the pace of technological development in the industry?

#### 4. RESOURCE PROCESSING

The question of the degree of processing of natural resources in Canada has been considered in detail by the Committee in its Report on the Natural Resources sector. In this connection, the Committee noted that Canada has an interest in promoting the degree of processing, fabrication and manufacturing in Canada of natural resources. The degree to which natural resources are processed, fabricated and manufactured in Canada is an important consideration in connection with the review of foreign direct investment.

#### 5. UTILIZATION OF CANADIAN INPUTS

The degree to which the new investment will utilize Canadian parts, components and services is an important consideration.

The Committee noted in its Report on Natural Resources that new ventures, particularly in the initial stages of development, tended to use foreign-based engineering and consulting services. The Committee is of the view such a tendency should be discouraged. In that Report, the Committee recommended the development of a Canadian controlled mining equipment and machinery industry. The review process should extract undertakings from foreign investors to employ Canadian mining machinery and equipment to the extent practicable in the circumstances.

##### (b) 1. PARTICIPATION BY CANADIANS

The Committee is of the view that "participation by Canadians" should be interpreted broadly to include participation by Canadians in employment, in management, as shareholders, in the control of the corporation, and supplying the firm with inputs such as consulting engineering services and the like. It is in all these respects that Canadians become involved in the operation of the new business. It is the view of the Committee that Canadians have a role in all these aspects of the enterprise. The review procedure should pay particular attention to the degree of significance of that role and its development over time in connection with the enterprise. For example, pressure might be brought to bear on the investor at the time of the review to develop a programme to increase progressively over time Canadians' role in the enterprise.

In this connection, the following factors, among others, should be considered:

###### (i) Management:

What proportion of the management of the enterprise will be conducted by Canadians? At what levels of significance will Canadians participate? To what extent will Canadian managers be trained both within the Canadian enterprise and within the international organization? What are the plans of the investor to develop Canadian management personnel to promote them to higher levels of management? What is the decision-making interface between the Canadian management team and the foreign investor? In other words, are there certain types of decisions in relation to the Canadian enterprise which must be referred for approval abroad?

###### (ii) Shareholders and Control:

To what extent will equity be offered to Canadians? Will Canadian shareholders be in effective control of the enterprise? What plans does the foreign investor have to offer equity in the enterprise to Canadians, both at the time of the review and over time?

(iii) Industry and Control:

To what extent are firms in the industry in which the foreign investor is, or proposes to be, engaged controlled by Canadians? In this connection, it may be appropriate to allow a foreign investment, other things being equal, where a strong and well developed Canadian controlled presence is evident. It may not be appropriate to allow foreign direct investment in an industry where a Canadian controlled presence is not strong and well developed. Competitive factors should also be considered. It would be inappropriate to disallow a foreign investment simply to protect Canadian ownership in a situation where the Canadian firms are strong and able to withstand competition from abroad. It may be desirable to inject foreign competition in a strong, Canadian controlled industry to ensure that the industry continues to be efficient by world standards.

(c) EFFECT ON:

1. PRODUCTIVITY

Does the foreign investor bring with him unique technology which is not otherwise available? To what extent will the Canadian operation engage in research and development? What is the quality of that R & D in terms of international significance? Does the investor possess know-how and unique management techniques to improve industrial efficiency?

2. INDUSTRIAL EFFICIENCY

Is the foreign controlled operation a plant of internationally significant scale, or is it simply a scaled-down inefficient branch plant producing only for the Canadian market? Does the investment promote industrial rationalization and specialization? Does the operation conform to federal and provincial industrial and economic strategies?

3. TECHNOLOGICAL DEVELOPMENT

The Committee has considered technology and research and development in another chapter of this Report. Some of the issues to be considered in relation to a particular investment involve the following: Is the technology of the investor a unique one or is it readily accessible? What is the level and kind of research and development to be conducted in Canada by the investor? For example, R & D designed to scale down plants and processes for the Canadian market would not be as attractive to Canada as frontier research and development, the fruits of which would accrue to Canada. What access, and on what terms, will the Canadian operation have to R & D conducted by the investor elsewhere? What proportion of the investor's total R & D will be conducted in Canada?

4. PRODUCT INNOVATION

To what extent will new products be introduced in Canada and to what extent will Canada be used as a base for the introduction of new products elsewhere? Will the investment promote product innovation or inhibit it?

5. PRODUCT VARIETY

In reference to the industry in which the foreign investor is engaged, is product variety desirable? It may be in a particular industry that additional product variety would not be appropriate. For example, the Canadian market for consumer durables such as refrigerators is such that additional plant capacity in Canada would not be warranted.

(d) COMPETITION

Is the industry such that more competition is indicated? In this connection, the Canadian industry may be such that it has become inefficient by world standards due to a lack of

effective competition. It may be that foreign competition is warranted in order to improve the efficiency of the Canadian industry as a whole. On the other hand, the industry may be so structured that there are too many producers relative to demand such that no one producer is in the position of maintaining a plant of sufficient size to realize economies of scale. In that event, additional plant capacity would not be indicated.

Does the foreign investment reflect a replication of oligoplies from abroad? If so, it is important to ensure that the undesirable aspects of an oligopolistic industrial structure be avoided in Canada.

What are the competitive practices of the foreign investor? To what degree do those practices reflect price competition and non-price competition such as product quality, product differentiation and advertising? The investor may bring with him practices which may have anti-competitive effects in Canada. For example, the Committee considered in its Report on the Advertising Industry the question of common accounts in that industry. In the Report on Natural Resources, the Committee considered the propensity of foreign investors in that industry to use the services of foreign based engineering and consulting firms, particularly in the early stages of the resource development. It is important that the review process neutralize such practices.

#### (e) NATIONAL AND PROVINCIAL ECONOMIC POLICIES

The Committee considers in the next chapter the development of coherent well-articulated economic and industrial policies both by the federal and provincial governments. The Committee noted earlier in this chapter the important role that Ontario industrial policy priorities should play in the administration of the Foreign Investment Review Act.

## **CHAPTER 5**

### **Industrial Development Strategies**

## Contents—Chapter 5

### INDUSTRIAL DEVELOPMENT STRATEGIES

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## Industrial Development Strategies

### I. INTRODUCTION

The Committee found that many problems related to foreign ownership and control are in large measure due to inappropriate or lack of Canadian commercial, industrial and financial policies. The Committee has also found that issues related to foreign investment must be viewed in the wider context of industrial policies. Indeed, the Committee is of the view that considering foreign investment in isolation from industrial strategies of general application would lead to inappropriate policy and regulatory approaches.

The need for the systematic development of industrial strategies has been clear to many Canadians for a long time not only in relation to considering the role of foreign investment within those strategies, but also in connection with a development of all Canadian industry—both Canadian and foreign controlled. Particularly with the establishment of a review procedure under the Foreign Investment Review Act, the need for industry-specific policies has become increasingly apparent and important in order that the review process can operate on the basis of policy objectives which will provide a co-ordinated approach to the screening activities.

Industrial strategies have implications which go far beyond our approach to foreign direct investment. Nevertheless, that approach is an integral aspect of industrial policies and strategies.

The Committee has found that Canadian commercial policies are associated with sub-optimal plant size in Canadian industries. It is becoming increasingly clear that Canada must engage in specialization and rationalization in order to render its industrial structure efficient on the world level. The encouragement of specialization and rationalization involves taking a hard look at our tax and tariff policies, developing R & D and innovative activities along certain lines, choosing an optimum balance between resource-based activity and manufacturing, and developing industry-specific strategies designed to achieve the kind of industrial structure which is efficient on a world scale.

The development of industrial policies which together would form an overall national plan for development is not evident. It may be that some planning and progress is being made without publicity to avoid adverse reaction abroad or for other reasons. However, the Committee has not been able to discover evidence of the systematic strategies so long promised by the Government.

The kind of industrial policies that are likely to be forthcoming may involve serious adjustments. That will mean that we should provide adjustment assistance to ease the short-run dislocations which may result.

### II. REVIEW AGENCY CRITERIA

The Gray Report recognizes that the review agency mechanism must work on the basis of certain criteria or guidelines lest it develop into an agent of incrementalism—the bargaining for more of everything without an understanding of its impact on industrial development. The agency should operate within industrial strategies. But to the extent that such strategies are missing, the Gray Report provided a number of guidelines which are very similar to the benefit-to-Canada criteria now contained in Section 2(2) of the Foreign Investment Review Act. The Committee discussed these criteria in the previous chapter.

One cannot find fault with any of these criteria. However, they are precisely those goals which underly the development of broadly based industrial strategies. In the absence of industrial strategies, there is no escaping the conclusion that the review agency will become an agent of incrementalism-bargaining for a little more of everything without really knowing why. The more that the Committee considered the role of the Foreign Investment Review Agency,

the more it became apparent that without such strategies, there is little more that the Agency can do other than bargain for a little more of everything in terms of the criteria established in the Act.

In its Interim Reports on the Capital Markets, on Natural Resources, on the Advertising Industry, and in this Report, the Committee makes a number of recommendations in connection with the execution of the review process. However, all these recommendations have been made in the context of broadly based industry-specific policies designed to promote developments along certain lines. In order for the review process to become an effective technique to promote coherent Canadian economic development, the Agency must proceed within the context of well-developed, well-articulated and coherent industry-specific strategies which together would form a national plan for economic development. Accordingly,

THE COMMITTEE RECOMMENDS THAT THE GOVERNMENTS OF CANADA IN CLOSE CO-OPERATION GIVE IMMEDIATE PRIORITY TO THE DEVELOPMENT OF INDUSTRY-SPECIFIC STRATEGIES WHICH TOGETHER WOULD CONSTITUTE NATIONAL AND PROVINCIAL PLANS FOR ECONOMIC DEVELOPMENT. THE REVIEW PROCESS UNDER THE FOREIGN INVESTMENT REVIEW ACT SHOULD BE CONDUCTED TO PROMOTE THOSE STRATEGIES.

### III. ELEMENTS OF INDUSTRIAL STRATEGIES

What are to be the elements of the industrial strategies? The Committee has published Interim Reports which consider land ownership, the capital markets, the natural resources industries and the advertising industry generally, and the role of foreign investment within those industries. Research and development, technology and innovation are considered in a separate chapter in this Report. R & D is an important element of all such industry-specific strategies that the Committee has recommended be developed on a systematic basis. In its Interim Reports, the Committee has made reference to competition policy and its impact within the specific industries considered in those Reports. Competition policy is another important aspect of developing industrial strategies.

Two other important elements of such strategies involve specialization and tariff policies.

#### 1. SPECIALIZATION AND RATIONALIZATION

The Committee has noted that many industries in Canada are characterized by the existence of a comparatively large number of firms operating plants of less than optimum scale such that they are not able to realize economies of scale. Moreover, those plants are typically characterized by short production runs. In such situations the need for specialization and rationalization policies is indicated. Specialization and rationalization involve processes designed to concentrate our industrial efforts in certain areas and to assist Canadian firms in becoming competitive on the international level.

The process of choosing those industries in which Canada may wish to concentrate is a very complex one which involves very hard choices. It can be done only by undertaking detailed analyses on an industry by industry approach. This is not within the terms of reference of the Committee. Nevertheless, some general observations can be made about the process.

In choosing the areas of specialization there must be a likelihood that Canadian activity is or will be efficient by world standards. Moreover, there must be a likelihood that there is a large role for Canadian production on world markets. In other words, the industries which are selected for specialization should be those in which there is considerable scope for growth on the world level. Moreover, the industries selected should also be those in which Canada has or can develop a competitive advantage in the world economy. These criteria reflect the goals of national economic policy of increasing employment, improving efficiency and maintaining economic growth.

A policy of specialization should not mean that we must have a rigid view of Canada's niche in the world economy. That economy is continually in a process of change and subject to stresses and strains which are capable of seriously affecting the balance of national economic positions. While we need a policy of specialization, we must be careful not to over-specialize for the result may be that the basis of our specialization may be dissolved rapidly. Whenever a decision is made to specialize in a particular industry which will involve a shift in the allocation of our real resources, it is particularly important to be satisfied that as a result of Canadian specialization in the particular industry, Canada can become an important factor in the industry internationally. In sum, we need policies which draw a balance between specialization on the one hand and the potential on the other hand to develop gradually other areas of specialization as the world economy continues to evolve.

Our experience with rationalization in the Auto Pact suggests that there may be dangers involved with rationalization as a form of specialization. The Committee concluded that the Auto Pact, while it has substantially increased Canada's share of automotive production, appears to have removed to a substantial extent the development of Canadian management and design capabilities. In the view of the Committee, the development of such capabilities would figure in a Canadian policy of specialization. The point is that we must be careful in guarding against such consequences in situations where we want to develop those capabilities.

The Committee is particularly concerned that the new industrial strategies focus on industries which involve a high Canadian skill content and high Canadian value added. The Committee is of the view that those industries selected for specialization should be regarded not so much as alternatives to existing industries, but as additional opportunities on which Canada will concentrate. Accordingly,

**THE COMMITTEE RECOMMENDS THAT IN DEVELOPING INDUSTRIAL STRATEGIES, PARTICULAR EMPHASIS SHOULD BE PLACED ON SELECTING THOSE INDUSTRIES FOR SPECIALIZATION THAT HAVE THE MAXIMUM POTENTIAL FOR HIGH CANADIAN SKILL CONTENT AND HIGH CANADIAN VALUE ADDED. WITH RESPECT TO RATIONALIZATION, CARE MUST BE TAKEN TO ENSURE THAT THE PROCESS OF RATIONALIZATION PROMOTES THE DEVELOPMENT OF CANADIAN MANAGERIAL AND RESEARCH AND DEVELOPMENT CAPABILITIES.**

## 2. TARIFF POLICIES

The Canadian tariff, relatively high by world standards, has had the effect of encouraging a high degree of product diversity and a large number of producers in given industries relative to market size. These two factors have meant plant size of less than optimum scale and short production runs. This situation has led to generally lower productivity in Canada than elsewhere. However, it is clear that some Canadian industries are just as efficient as elsewhere. Some of the differences in efficiency between Canadian industries may be attributable to the degree of effective protection afforded by the tariff.

The tariff has also encouraged foreign direct investment in Canada. Foreign producers found themselves compelled to locate production facilities in Canada for the high tariff meant that they could not long service the Canadian market via exports. The system of Commonwealth preferences was an added incentive to locate in Canada. The existence of our relatively high tariff structure together with the Commonwealth preferences had the effect of threatening to exclude foreign producers from the Canadian and perhaps Commonwealth markets unless the producers met that threat by locating in Canada. The extent to which they responded is clear. This has produced what is called the miniature replica effect in Canada—most of the producers in larger foreign markets established branch plants in Canada with those plants being of sub-optimum size and characterized by short production runs. Although the Canadian tariff has been considerably reduced in recent years (indeed, on some items it has been reduced to zero), and only the last vestiges of Commonwealth preferences remain, the fact is that the

Canadian tariff is high relative to other industrial countries. Moreover, the industrial structure which in the past developed in large measure as a response to our tariff policies remains intact to a large degree.

It must be noted that our tariff policies have not been without benefit to Canadian controlled firms and that in terms of attracting production facilities to Canada our past tariff policies have had their intended effect. Nevertheless, the industrial structure which resulted from those policies in terms of developing production facilities across a broad front may not be appropriate for Canada for that structure has meant relatively high cost production.

In its Interim Report on Natural Resources, the Committee noted that the tariff policies of foreign countries tend to encourage the exportation from Canada of raw materials in relatively unprocessed form. This is so because tariff systems subject imports to higher levels of duty as the degree of processing and fabrication increases. This tendency is imbedded in tariff structures throughout the world including that of Canada.

The Committee concluded that this tendency of the tariff structures of our trading partners has important consequences in terms of the degree of processing and fabrication of resources undertaken in Canada. Moreover, that tendency has a major impact on Canadian industrial structure in terms of the balance—or more correctly, the current imbalance—between the resource-based and manufacturing sectors of the Canadian economy. In the Interim Report on Natural Resources, the Committee concluded that a major goal of industrial policies should be the promotion of processing, fabricating and manufacturing of natural resources in Canada. It is in Canada's interest as a major supplier of raw materials to endeavour to have the bias in favour of unprocessed raw material imports removed from tariff structures. Therefore, in accordance with a similar recommendation made in the Interim Report on Natural Resources,

THE COMMITTEE RECOMMENDS THAT THE PROCESS OF DEVELOPING THE NEW INDUSTRIAL STRATEGIES EXPLICITLY RECOGNIZE THAT CANADA HAS AN IMPORTANT INTEREST IN THE REMOVAL OF THE CURRENT BIAS OF WORLD TARIFF STRUCTURES THAT GENERALLY FAVOUR IMPORTS OF UNPROCESSED GOODS. A MAJOR GOAL OF CANADA IN FUTURE TARIFF NEGOTIATIONS SHOULD BE THE REMOVAL OF THAT BIAS.

The major responsibility in Canada's endeavour to remove the tariff bias in favour of unprocessed goods rests with the federal government for it involves *bilateral* or multilateral tariff negotiations with our trading partners. The current GATT negotiations, now in the preliminary stages, present an ideal opportunity to make some progress in this connection. Our bargaining position relative to the removal of this bias would appear to be enhanced in the present world environment involving a general world shortage of raw materials. In this connection, it is to be noted that the Canadian tariff also reflects a bias in favour of unprocessed imports and Canada will have to show a willingness to remove this bias in its own tariff structure.

Although the responsibility with respect to tariff negotiations is primarily federal, provincial governments have an important role in identifying desired changes in tariff policies, in assisting in the development of appropriate bargaining positions and in ensuring that provincial interests are adequately represented.

The Committee has concluded that Canadian tariff policies have had an important impact, not only in terms of the development of the current balance between natural resource exploitation and manufacturing, but also in terms of the general development of the Canadian industrial structure. Tariff policies must be reviewed in the process of developing industrial policies. The present structure of the Canadian tariff may not be appropriate in the context of the industrial strategies which the Committee has recommended be developed. In this connection, it is important to note that tariff policies, or changes therein, would appear to be a powerful

tool, for example, to promote specialization and rationalization or to promote competition in selected sectors of the economy.

### 3. OTHER POLICIES

There are a host of other economic policies which must be considered in connection with the development of specific industrial strategies. These policies include exchange rate policy, competition policy, transportation policy, manpower policy, industrial incentives and regional development policies. The Committee notes that a consideration of these policies is a highly complex matter and that these policies and programmes are to very important degrees highly interrelated. Nevertheless, the Committee is of the view that the process of developing appropriate industrial strategies as the Committee has recommended necessarily involves a re-consideration of all major national and provincial economic policies of general application. Accordingly,

**THE COMMITTEE RECOMMENDS THAT IN THE PROCESS OF DEVELOPING INDUSTRIAL STRATEGIES, ALL MAJOR NATIONAL AND PROVINCIAL ECONOMIC POLICIES OF GENERAL APPLICATION SHOULD BE REVIEWED WITH A VIEW TO ENSURING THAT THOSE POLICIES ARE COMPATIBLE IN RELATION TO EACH OTHER AND TO ENSURE THAT THOSE POLICIES PROMOTE THE NEW INDUSTRIAL STRATEGIES.**

The Committee outlines below very briefly some of the issues which deserve attention in connection with the re-consideration of economic policies.

#### (a) *Exchange Rate Policy*

Exchange rate policies were considered in greater detail in the Interim Report on the Capital Markets. The Committee noted there that whereas in the past Canada was in substantial need of capital inflows to finance current account deficits, in some recent periods Canada has enjoyed trade or current account surpluses resulting in Canada being a supplier of savings to the rest of the world.

Whereas in the past Canada operated in the general world context of fixed exchange rates, now the situation is different in that most of our trading partners operate generally within a system of floating exchange rates. This change, along with the monetary realignments of the recent past, the clear need for reforms of the international monetary system and the accompanying uncertainty, have different policy implications from the international monetary environment prevailing in the past. Under the present circumstances, and for the short—and medium—term, capital inflows will likely have the effect of putting upward pressure on the exchange rate, in the absence of off-setting imports, thus rendering Canadian exports less competitive abroad and foreign goods more competitive in Canada.

Our relatively high exchange rate results in no small measure from the relatively high levels of exports of relatively unprocessed natural resources. The high exchange rate has led to a substantial and growing deficit on manufacturing account. The exchange rate effects of capital inflows may be offset by capital exports. However, it is questionable whether a policy to promote capital exports in support of exchange rate policy (i.e. lowering the exchange rate) is feasible or indeed desirable. To be sure, from the point of view of maintaining a viable balance of payments, it is customary and desirable that there be a mixture of flows in each direction—capital inflows generated by non-residents investing in Canada and capital outflows generated by Canadians investing abroad.

The present environment invites a consideration of various alternative patterns and configurations of capital flows, alternatives and trade-offs. These alternatives are in turn associated with alternative configurations and patterns of substantive economic policies. For example, should Canadian exports of capital be rechannelled in support of Canadian

economic development? In other words, should the climate for investment in Canada be rendered more favourable for Canadians and relatively less favourable for non-residents? Should some foreign investment be replaced by Canadian entrepreneurship, ownership and control? In considering such questions it is important to keep in mind that capital flows are highly sensitive to changes in the economic environment. Should Canada undertake large resource-based projects which require huge capital inflows? What role will foreign capital inflows, particularly in the form of direct investment, play in relation to a Canadian policy of specialization?

(b) *Competition Policy*

Canadian competition policy has been undergoing a process of revision which began in 1969 with the publication by the Economic Council of Canada of a report on competition policy.<sup>1</sup> Since then, draft legislation was introduced in Parliament on several occasions; no legislation has yet been enacted. Bill C-7, *An Act to amend the Combines Investigation Act*, was introduced on March 11, 1974;<sup>2</sup> however, Bill C-7 died on the order paper after the dissolution of Parliament in May, 1974. The Government has indicated that Bill C-7 will be introduced in substantially the same form in the current session of Parliament.

While the Committee supports the goals of the current process of reforming and modernizing Canadian competition policy, the Committee is concerned that the reform process appears to have as its prime objective the development of competition as an end in itself without due regard to the underlying objectives of competition policy, namely the promotion of an efficient economy by world standards.

The Committee has noted earlier that many Canadian industries are inefficient by world standards; firms in those industries are unable to realize economies of scale because of the comparatively large numbers of firms, each operating plants of less than optimum size and each having relatively short production runs. In such situations, specialization and rationalization policies would be indicated. However, it is likely that such policies would conflict with competition policy whose sole aim is to promote competition within Canada. In the process of reforming competition policy we must ensure that the new policy is responsive to the need to engage in specialization and rationalization.

In developing a competition policy for Canada which recognizes the need for specialization and rationalization, it is important to consider the potential extraterritorial application of foreign laws. Extraterritoriality has manifested itself in connection with a number of the laws of the United States, most conspicuously with respect to the trading with the enemy legislation, but also in connection with American securities and anti-trust laws. The United States has applied its anti-trust laws so as to affect the operations of American firms and their subsidiaries abroad. As a result, American parent corporations and their foreign subsidiaries are highly conscious of and responsive to U.S. anti-trust legislation.

In the process of executing Canadian specialization and rationalization policies, it may, for example, be considered necessary to reduce the number of firms in a particular industry by combining the operation of two or more existing firms. If one or more of those firms are American subsidiaries, the efforts at rationalization may be effectively thwarted because the combination of firms is actually or potentially contrary to U.S. anti-trust law. Accordingly, Canadian specialization and rationalization policies will need to take account of the potential of U.S. anti-trust legislation to be applied extraterritorially.

Bill C-7 includes a provision to empower the Restrictive Trade Practices Commission to issue directives to neutralize the application of foreign judgements, decrees, laws and directives.<sup>3</sup>

<sup>1</sup>Economic Council of Canada, *Interim Report on Competition Policy*, Information Canada, July 1969.

<sup>2</sup>Bill C-7, *An Act to amend the Combines Investigation Act and The Bank Act and to repeal an Act to amend the Combines Investigation Act and the Criminal Code*, Second Session, Twenty-Ninth Parliament, First reading, March 11, 1974.

<sup>3</sup>Ibid., s. 12, adding sections 31.5 and 31.6 to the *Combines Investigation Act*.

Such countervailing directives would be available in respect of any foreign law or decree which would adversely affect competition in Canada, industrial efficiency, and our foreign trade.<sup>4</sup> The Committee supports measures of this kind.

If competition policy is viewed more as an instrument towards developing an efficient Canadian economy rather than an end in itself, then the apparent conflict between competition policy and other policies such as specialization and rationalization would be removed. From the point of view of developing an efficient economy on a world scale, Canada, with a relatively small domestic market can ill afford to support a relatively large number of producers in many industries as appears to be the aim of competition policy in some other economies. What Canada needs is an appropriate policy balance to ensure effective competition domestically on the one hand and to ensure that Canadian producers operate efficient world-scale plants on the other hand. To achieve that balance, it may be necessary to limit the number of producers in a given industry. In doing so, however, it is necessary to ensure that those producers do not abuse the domestic market position which they have been permitted by policy to develop. In this connection, the Committee supports the view that consideration be given to using our tariff structure as an element of our competition policy tools. For example, if a Canadian industry having relatively few producers is found to be abusing its economic position domestically, a selective reduction of duties applicable to that industry may well be an appropriate policy technique to bring that industry into line. Indeed, the continuing threat that protection from foreign competition may be removed may prove to be sufficient to induce the industry to remain competitive domestically.

In view of the above considerations,

THE COMMITTEE RECOMMENDS THAT COMPETITION POLICY BE DEVELOPED WITHIN THE CONTEXT OF INDUSTRIAL STRATEGIES AND THAT COMPETITION POLICY BE SUPPORTIVE OF THOSE STRATEGIES. THE GOALS OF COMPETITION POLICY SHOULD BE CONSTRUED WIDELY IN THE SENSE OF DEVELOPING AN EFFICIENT CANADIAN ECONOMY BY WORLD STANDARDS RATHER THAN NARROWLY IN THE SENSE OF DEVELOPING COMPETITION AS AN END IN ITSELF. SPECIFICALLY, CANADIAN COMPETITION POLICY SHOULD INCLUDE CONSIDERABLE SCOPE FOR SPECIALIZATION AND RATIONALIZATION WITHIN INDUSTRIES, WHILE AT THE SAME TIME ENSURING THAT THE BENEFITS IN TERMS OF EFFICIENCY ACCRUE TO THE CANADIAN ECONOMY AS A WHOLE.

(c) *Transportation Policy*

The Committee is concerned that transportation policy has not received as much attention as an important element of our total package of economic policies as it might. This is especially so in terms of considering how well our transportation policies and practices mesh with our other economic policies.

As an example, the Committee understands that the system of freight rates within Canada operates so as to frustrate, to a considerable degree, our regional development programmes. This results from the practice of charging lower freight rates to transport bulk, low value, unprocessed raw materials and charging higher rates as the degree of processing and manufacturing increases. This practice has two effects: Firstly, it has the effect of encouraging shipments of relatively unprocessed raw materials from the producing region thereby rendering it difficult to establish processing and fabrication facilities in that region. Secondly, it has the effect of increasing the costs of shipments from other areas of the country to that region, thereby exacerbating efforts to establish processing and fabrication facilities or indeed, secondary manufacturing.

<sup>4</sup>For the exact wording concerning under what circumstances countervailing directives are available, see s. 31.5 (b) added by s. 12 of Bill C-7.

In other words, our system of freight rates appears to operate within Canada much in the same way as tariffs operate internationally—encouraging exports of unprocessed goods from producer nations and discouraging exports of processed or manufactured goods. The Committee is concerned that this effect of our system of freight rates undermines to some degree the goals of our regional development policies.

One approach towards the solution of problems in this connection which commends itself to the Committee would involve the injection of a greater degree of competition into the provision of rail service to the various regions of Canada. This could be accomplished as follows: The Government of Canada would assume ownership and control over the rail beds and provide traffic control services to those seeking to use the rail beds. This kind of approach to rail service parallels that employed in connection with air and water services. In order to inject competition in the provision of railway service where it is found inadequate, the federal government or the province concerned could invite tenders from private enterprise with respect to providing the desirable level of rail service to that region.

Although the Committee recognizes that the development of appropriate transportation policies is a highly complex matter, the Committee nevertheless perceives an urgent need to modernize those policies and to ensure that new transportation policies and other economic policies are mutually reinforcing. Accordingly,

THE COMMITTEE RECOMMENDS THAT CANADIAN TRANSPORTATION POLICIES BE REVIEWED AND MODERNIZED, WITH PARTICULAR ATTENTION BEING GIVEN TO IDENTIFYING THE INTERRELATIONSHIPS BETWEEN OUR TRANSPORTATION POLICIES AND OTHER ECONOMIC POLICIES SUCH AS REGIONAL DEVELOPMENT AND TO ENSURE THAT OUR TRANSPORTATION POLICIES AND OTHER ECONOMIC POLICIES ARE MUTUALLY REINFORCING. IN THE REVIEW OF TRANSPORTATION POLICIES, CONSIDERATION SHOULD BE GIVEN TO THE DEVELOPMENT OF A GREATER DEGREE OF COMPETITION WITH RESPECT TO THE PROVISION OF RAIL SERVICE, ONE POSSIBILITY BEING ACQUIRING RAIL BEDS BY PURCHASE OR LEASE, PROVIDING TRAFFIC CONTROL SERVICES, AND CALLING FOR TENDERS FOR THE PROVISION OF RAIL SERVICES OVER THOSE BEDS.

(d) *Manpower Policy*

The industrial strategies which the Committee has recommended be developed are likely to involve substantial shifts from the current economic structure. There are two major problems which such a shift will involve in terms of manpower policies—adjustment assistance, and developing, over time, those kinds of skills required by a continually evolving industrial structure.

The shifts likely to be involved in implementing the new industrial strategies will mean that some skills will be displaced by others. This will mean that people will have to be re-trained with new skills. This is a question involving adjustment assistance and will be considered in greater detail below.

Our industrial structure is likely to be in a continual state of adjustment over time. The important challenge of that state of affairs in terms of manpower policies is to ensure the development on an on-going basis of those kinds and levels of skills required with a minimum of dislocation. In other words, our manpower policies must be responsive to our industrial strategies and must be flexible in order to maintain an evolving manpower position to match the industrial structure as it evolves over time. At the same time, and perhaps equally important, our industrial strategies need to take account of the strengths and weaknesses, needs and desires of the labour force.

THE COMMITTEE RECOMMENDS THAT IN THE DEVELOPMENT OF APPROPRIATE MANPOWER POLICIES IN CONNECTION WITH THE INDUSTRIAL STRATEGIES ALL ASPECTS OF MANPOWER POLICIES SHOULD BE TAKEN INTO ACCOUNT TO MINIMIZE THE DISLOCATION OF PEOPLE, INCLUDING LOCATIONAL FACTORS, DISPERSION OF TRAINING OPPORTUNITIES AND PROGRAMMES IN ALL AREAS OF THE PROVINCE, AND APPRENTICESHIP PROGRAMMES IN TRADES AND PROFESSIONS.

(e) *Industrial Incentive Policies*

Canada—both federally and provincially—currently has a great number and variety of industrial incentive and assistance programmes each designed to encourage or assist industry to engage in certain kinds of activity.<sup>5</sup> Within this classification of policies, the Committee would include special provisions of the tax system, such as the favourable treatment of resource-based income which, in the past, has been a major incentive to resource extraction.

In connection with the development and execution of industrial development strategies, incentive programmes will continue to play an important role. However, it is important to ensure that these programmes and policies promote to the maximum degree the industrial strategies. Moreover, the Committee has sensed a reluctance to review incentive programmes from time to time to ensure that they are still needed and to ensure that they still comport with the thrust of other economic policies. In other words, once an incentive programme is established, it appears to have staying power even though it appears that the programme no longer achieves its objectives or is no longer in conformity with other economic policies. Accordingly, in the development and execution of industrial strategies, it is important that all industrial incentive and assistance programmes be reviewed to ensure that those programmes promote the goals of the new industrial strategies and if not, to revise them so that they do. In addition, incentive programmes should be reviewed periodically to ensure that they continue to achieve their objectives efficiently and that they do not work at cross purposes with other economic policies. Accordingly.

THE COMMITTEE RECOMMENDS THAT THERE BE A CONTINUAL RE-EVALUATION OF INDUSTRIAL INCENTIVE PROGRAMMES TO ENSURE THAT THEY CONTINUE TO ACHIEVE THEIR OBJECTIVES EFFICIENTLY AND THAT THEY ARE SUPPORTIVE OF AND DO NOT WORK AT CROSS PURPOSES WITH OTHER ECONOMIC POLICIES.

In connection with this recommendation the Committee visualizes the establishment of a body of legislators to conduct the on-going public appraisals of our incentive programmes. This body should have back-up staff to conduct the kind of research which would be necessary to ensure that the incentives achieve their goals efficiently and continue to comport with the thrust of other economic policies and industrial strategies.

In its Report on Natural Resources, the Committee noted that there is a strong argument to be made that tax incentives be restricted to Canadians. We are advised that the operation of the foreign tax credit provisions extant in the tax system of foreign countries, particularly the United States, is such that if the Canadian tax incentives were removed, the resulting increase in Canadian tax payable by foreign controlled corporations could be offset, at least to some extent, against tax liabilities of their parent corporations in home jurisdictions. Put another way, the benefit to the foreign controlled corporation of the reduced Canadian tax resulting from the special tax incentives are offset, at least in part, by higher tax liabilities in the home country. This may be so also with respect to other forms of incentives.

Due to time and manpower limitations, the Committee has not undertaken an in-depth study of the complexities involved in a consideration of the foreign tax credit mechanisms

<sup>5</sup>For a recent compilation of incentive and assistance programmes available in Canada, see McQuillan, Peter E., and Davies, Bryan P., *Industrial Assistance Programs in Canada*, CCH Canadian Ltd., 1974.

of foreign jurisdictions and how they relate to Canada's tax system. It is the view of the Committee that such a study is best left to the experts and those involved in the administration of our tax system. Since the efficiency of the tax system in this connection has national and international implications, the Committee would suggest that this study be undertaken by the federal authorities.

The Committee considers this issue to be particularly important in connection with incentives to encourage resource extraction. Nevertheless, this issue has important implications in terms of the efficiency of all our incentive programmes. In accordance with a similar recommendation made in the Interim Report on Natural Resources,

**THE COMMITTEE RECOMMENDS THAT A STUDY BE UNDERTAKEN BY THE FEDERAL GOVERNMENT TO DETERMINE TO WHAT EXTENT THE OPERATION OF FOREIGN TAX SYSTEMS NEUTRALIZE THE EFFECT OF CANADIAN INCENTIVE PROGRAMMES.**

To the extent that the foreign tax credit provisions operate as the Committee has been advised, the net effect of Canadian incentives granted to foreign controlled corporations is to provide additional revenues to foreign public treasuries at the expense of the Canadian federal and provincial treasuries without any real benefit accruing to the Canadian economy. Should the recommended study confirm this argument, the Committee would recommend that incentive programmes be restricted to Canadians.

In its Interim Report on Capital Markets the Committee noted in connection with the roles of Ontario's Development Corporations within the economy of Ontario that individual investment projects require a case by case approach as to the implications and desirability of Canadian as opposed to foreign ownership with respect to the recipients of assistance. At the same time, the Committee recommended that Ontario's Development Corporations adopt a preference for Canadian owned firms in their loan programme, while recognizing that there may be special circumstances, regional or other considerations, or the possibility of persuading foreign direct investors to tailor the nature of their operations to cater more to economic and social objectives of Ontario. Accordingly the Committee recommended that in overall terms the predominant proportion of ODC loans be made to Canadian owned enterprises.

The Committee is of the view that this principle of favouring Canadian owned firms be applied generally to all industrial incentive programmes while at the same time recognizing that there may be circumstances which would justify granting incentives to foreign controlled firms. Accordingly,

**THE COMMITTEE RECOMMENDS THAT AS A GENERAL GUIDE INDUSTRIAL INCENTIVE PROGRAMMES FAVOUR CANADIAN CONTROLLED FIRMS.**

*(f) Regional Development Policies*

Regional development policies are a form of industrial incentive designed to promote the economic development of economically less advantaged regions of the province or country. These policies encompass a wide variety of programmes including incentives of various forms to encourage industries to locate in underdeveloped regions, capital and operating grants for transportation facilities, manpower training grants and the like. The goal of these policies is to bring the benefits of industrialization to these regions. The Committee is of the view that these policies should be developed in co-operation with these regions.

The Committee has noted earlier that economic policies of these kinds are highly interrelated. We considered briefly above the impact that the current system of freight rates has in terms of regional economic development. In developing and executing the new industrial strategies, it will be necessary to re-consider all economic policies in relation to the industrial strategies and to examine carefully the interrelationship of those policies.

#### IV. ADJUSTMENT ASSISTANCE

The Committee visualizes that the development of industrial strategies, may involve serious realignments in the Canadian economy. The encouragement of specialization and rationalization will involve a shift of resources from some industries and firms into others. This raises the question of adjustment assistance. The Committee is of the view that adjustment assistance is frequently overlooked when major economic policy shifts are contemplated.

Although some firms and perhaps some industries will be forced to cease operations as a result of the implementation of the new industrial strategies, others will benefit. Indeed, the nation as a whole will benefit in the long-run. Our manpower, capital and other resource markets may to some degree reallocate resources efficiently particularly as policies designed to improve the efficiency of capital markets take hold. Nevertheless, some resources, both human and material, which our markets may not be equipped to accommodate must be assisted in other ways.

Canada has had some experience in connection with major economic policy shifts and adjustment assistance in relation to the Auto Pact and the Kennedy Round tariff negotiations. The Automotive Adjustment Assistance Programme (AAAP) was established to ease adjustments following the implementation of the Auto Pact in 1965. This programme provided loans to original equipment automotive parts manufacturers and related suppliers. In 1973, the AAAP was absorbed into the General Adjustment Assistance Program.

The General Adjustment Assistance Program (GAAP) was established by the federal government in 1967 to assist Canadian manufacturers in making the adjustments necessary following the Kennedy Round tariff negotiations and in assisting Canadian firms to take maximum advantage of export opportunities arising from cuts in foreign tariffs. In 1973, GAAP was expanded to cover all forms of adjustment assistance, including that formerly available under AAAP.

Although Canada has in place an adjustment assistance programme, the Committee is of the view that Canada has given too little attention in the past to adjustment assistance in connection with major shifts in industrial policies. While the adjustment assistance programmes designed to deal with the disruptions resulting from the Auto Pact and the Kennedy Round may have been adequate in those contexts, the new industrial policies which the Committee has recommended be developed may be cumulatively a great deal more far-reaching than the Auto Pact or the Kennedy Round and may involve more serious adjustments. Therefore, adjustment assistance may be even more appropriate in the context of the new industrial strategies.

It is important to minimize the reallocation difficulties in connection with the implementation of the new industrial policies. This may be done in a combination of several ways. The new policies may be phased in gradually in order to afford those affected time to make the transition to the new industrial structure in an orderly fashion with a minimum of difficulty. Adjustment assistance would encourage those affected to use the time effectively to become integrated into the new industrial structure. However, adjustment assistance should be approached more in terms of easing the shift from one activity into another rather than as a scheme of compensation for lost employment or market positions. It should be used to underwrite to an appropriate extent the re-training of employees and the adjustments required by firms to operate in the context of the new environment. Adjustment assistance should not be used simply to compensate firms who have lost their market positions.

Adjustment assistance should be administered primarily on criteria involving the easing of the dislocations resulting from policy changes. Therefore, it should be available to both Canadian- and foreign-controlled firms. However, to say that does not mean that the fact of foreign ownership is not relevant. If the foreign owned firm views assistance simply as

compensation for the loss of its market position resulting from, for example, the removal of tariffs and if the firm plans to cease operations, no assistance would be justified because compensation in that situation does not result in any economic benefit to Canada. Accordingly,

THE COMMITTEE RECOMMENDS THAT GREATER ATTENTION BE GIVEN TO THE IMPORTANCE OF ADJUSTMENT ASSISTANCE IN CONNECTION WITH THE DEVELOPMENT AND EXECUTION OF THE NEW INDUSTRIAL DEVELOPMENT STRATEGIES.

## **APPENDICES**



## STATISTICAL APPENDIX

### INTRODUCTORY NOTE

The following tables have been prepared to show some of the highlights of foreign ownership and control in the Ontario and Canadian economies. Most of these tables have been drawn from reports published by Statistics Canada under the Corporations and Labour Unions Returns Act. These reports provide detailed information on various aspects of foreign ownership and control of Canadian industry. Nonetheless they do have limitations, and several points should be kept in mind in interpreting them.

First, not all corporations are required to file returns under CALURA. In particular, very small companies and many companies in regulated industries do not have to file reports. The coverage of CALURA data may thus be incomplete in these respects.

Secondly, the CALURA data generally use 50% or more ownership as indicative of control. In practice, there is a great variety of relationship between parent company owners and subsidiaries which ownership statistics do not accurately portray. Canadian subsidiaries may be quite autonomous even though largely foreign owned. On the other hand, Canadian corporations less than 50% owned abroad may nevertheless be tightly foreign controlled because of debt, royalty, brand name or franchising arrangements. In addition, the use of 50% ownership as indicative of control means that small changes in share ownership on either side of the 50% mark may have a dramatic effect on the statistics, especially if large corporations are involved. This is the case in several industries in Canada.

This latter aspect is also important with respect to a third matter relating to the use of the CALURA data. There is a time lag of about three years in the presentation of CALURA data. For example, the latest figures available in late 1974 are for 1971. Significant changes may have taken place in the meantime. On the other hand, it is important not to emphasize only the most widely publicised changes which may have taken place. Other smaller changes may well have cumulative and more than offsetting effects.

**TABLE 1**

**DEGREE OF FOREIGN OWNERSHIP OF CANADIAN INDUSTRY  
AS MEASURED BY ASSETS, 1967 AND 1971**

	50-100%	25-49.9%	0-24.9%	Government and Unclassified	
<b>AGRICULTURE, FORESTRY AND FISHING</b>					
Total.....	1967	14	8	41	37
	1971	13	4	49	34
<b>MINING</b>					
Metals.....	1967	42	18	38	2
	1971	52	20	28	..
Mineral fuels.....	1967	79	6	14	1
	1971	81	6	13	1
Other mining.....	1967	50	8	34	8
	1971	57	12	26	5
Total.....	1967	58	12	27	3
	1971	64	..	..	..

TABLE 1 — Continued

		50-100%	25-49%	0-24.9%	Government and Unclassified
CONSTRUCTION					
Total . . . . .	1967	14	1	68	17
	1971	16	2	66	16
TRANSPORTATION AND UTILITIES					
Total . . . . .	1967	4	11	25	60
	1971	6	10	26	69
WHOLESALE TRADE					
Total . . . . .	1967	25	2	54	19
	1971	31	2	51	15
Wood industries . . . . .	1967	26	13	54	7
	1971	46	1	47	5
Furniture industries . . . . .	1967	16	2	67	15
	1971	20	2	67	10
Paper and allied industries . . . . .	1967	39	8	53	..
	1971	48	16	36	..
Printing, publishing and allied industries . . . . .	1967	12	3	70	15
	1971	8	2	80	10
Primary metals . . . . .	1967	56	11	30	3
	1971	42	10	43	4
Metal fabricating . . . . .	1967	44	1	47	8
	1971	42	3	49	6
Machinery . . . . .	1967	72	42	12	2
	1971	72	1	14	2
Transport equipment . . . . .	1967	86	1	12	1
	1971	83	..	16	1
Electrical products . . . . .	1967	69	1	29	1
	1971	..	..	32	1
Non-metallic mineral products . . . . .	1967	47	4	43	6
	1971	59	3	34	4
Petroleum and coal products . . . . .	1967	100	..	..	..
	1971	59	3	..	..
Chemicals and chemical products . . . . .	1967	83	1	7	9
	1971	78	1	9	11
Total manufacturing . . . . .	1967	57	5	34	4
	1971	58	6	34	3

TABLE 1 — Continued

		50-100%	25-49%	0-24.9%	Government and Unclassified
TOTAL—NON-FINANCIAL INDUSTRIES.	1967	33	7	35	25
	1971	35	7	35	23
TOTAL—ALL INDUSTRIES.....	1967	24	5	34	37
	1971	24	5	32	38

\* indicates information not available or not available for disclosure.

Source: 1970 and 1971 CALURA Reports, Part 1.

#### FOREIGN OWNERSHIP OF ONTARIO INDUSTRY

The only regional breakdowns of foreign versus Canadian ownership control given by CALURA are on the basis of provincial allocation of corporate taxable income. These are only imperfect measures of the distribution of foreign and Canadian owned industrial activity, and their reliability is likely to vary among industries. They do, however, give a general indication of the regional breakdown of foreign and Canadian ownership control by industry.

TABLE 2

#### ONTARIO'S SHARE OF FOREIGN AND CANADIAN OWNERSHIP AS MEASURED BY ALLOCATION OF CORPORATE INCOME TAX, BY INDUSTRY GROUP, 1971

The following Table is designed to give some indication of the proportion of Canadian and foreign ownership attributable to Ontario as opposed to the rest of Canada.

Industry	Foreign	Canadian	Unclassified	Total
Agriculture.....	16.1%	23.0%	23.4%	22.2%
Mining.....	29.0	23.3	14.8	26.9
Manufacturing.....	58.4	43.9	44.8	53.7
Construction.....	36.3	42.0	38.3	40.1
Utilities (incl. transportation).....	13.6	40.4	31.4	32.3
Wholesale trade.....	46.1	40.0	37.8	41.8
Retail trade.....	39.2	38.0	33.4	37.2
Services.....	40.2	42.3	42.8	40.9
Total—Non-Financial Industries.....	50.6	41.4	37.0	45.3

Source: 1971 CALURA Report, Part 1.

TABLE 3

CANADIAN AND FOREIGN OWNERSHIP OF ONTARIO INDUSTRY AS  
MEASURED BY CORPORATE TAXABLE INCOME, 1971

This Table is designed to indicate the breakdown of foreign and Canadian ownership of industry within Ontario.

Industry	Foreign	Canadian	Unclassified	Total
Agriculture.....	7.9%	52.6%	39.5%	100.0%
Mining.....	70.8	27.8	1.4	100.0
Manufacturing.....	70.3	27.6	2.1	100.0
Construction.....	14.5	59.3	26.1	100.0
Utilities (incl. transportation).....	11.9	82.6	5.5	100.0
Wholesale trade.....	36.4	53.3	10.3	100.0
Retail trade.....	28.1	49.5	22.4	100.0
Services.....	22.6	42.2	35.2	100.0
Total—Non-Financial Industries.....	52.2	39.4	8.4	100.0

Source: 1971 CALURA Report, Part 1.

TABLE 4

BOOK VALUE OF FOREIGN OWNED EQUITY IN CANADIAN INDUSTRY,  
1967 AND 1971

	1967	1971	Foreign	Total
			Owned	
millions of dollars				
Agriculture, forestry, fishing.....	1967	108	391	
	1971	146	568	
Mining.....	1967	3,428	6,524	
	1971	6,544	10,525	
Manufacturing.....	1967	12,266	20,460	
	1971	15,151	24,652	
Construction.....	1967	117	1,218	
	1971	234	1,708	
Utilities including transportation.....	1967	496	11,157	
	1971	858	13,526	
Wholesale trade.....	1967	680	3,020	
	1971	1,475	4,712	
Retail trade.....	1967	731	2,733	
	1971	1,035	3,890	
Finance.....	1967	4,296	19,142	
	1971	7,382	28,113	
Services.....	1967	313	1,434	
	1971	567	2,294	
Total—Non-Financial Industries.....	1967	18,139	46,937	
	1971	26,010	61,876	
Total—All Industries.....	1967	22,435	66,079	
	1971	33,392	89,989	

Source: 1970 and 1971 CALURA Reports, Part 1.

TABLE 5

## PAYMENTS TO NON-RESIDENTS BY 26 PAYMENT TYPES, FOREIGN AND CANADIAN CONTROLLED CORPORATIONS, 1971

Payment Type	Foreign Controlled	Canadian Controlled	Total
Dividends.....	717.1	74.1	791.1
Interest:			
Debentures and bonds.....	131.2	82.2	213.4
Bank loans.....	30.9	13.0	43.8
Other.....	229.2	36.9	266.1
Total.....	391.3	132.0	523.3
Rent:			
On real property in Canada.....	7.0	1.5	8.5
On equipment.....	72.5	57.6	130.0
Total.....	79.5	59.0	138.5
Royalties and similar payments:			
Copyrights.....	18.0	5.4	25.3
Patents of Invention.....	30.8	6.2	37.1
Industrial designs.....	43.2	2.0	45.2
Trade marks and trade names.....	11.8	3.4	15.1
Other.....	65.4	6.7	72.0
Total.....	169.3	23.7	192.9
Payments for exercise of production, distribution and sales franchises and similar rights.....	30.4	11.0	41.4
Advertising and sales promotion.....	33.3	9.2	42.5
Payments for or in respect of:			
Scientific research.....	21.6	3.8	25.5
Product and process development research.....	51.0	2.7	53.6
Total.....	72.6	6.5	79.1
Insurance premiums and related charges.....	12.2	5.2	17.4
Management and administrative fees.....	135.0	8.7	143.7
Salaries, fees and other remuneration to officers and directors.....	14.0	4.8	18.9
Annuities, pensions and similar payments:			
To officers and directors.....	.6	.4	.9
To shareholders holding more than 5% of any class of issued shares.....	.1	..	.1
Total.....	.7	.4	1.0
Fees and charges for professional services:			
Engineering services.....	128.0	10.4	138.4
Architectural services.....	.4	.1	.6
Legal services.....	3.6	1.7	5.3
Accounting services.....	3.5	.2	3.7
Auditing services.....	1.4	.3	1.8
Total.....	137.0	12.8	149.8
Consulting fees and other charges not included in above payments.....	89.9	10.2	100.1
TOTAL all payments .....	1,881.8	357.5	2,239.3

Source: 1971 CALURA Report, Part 1.

TABLE 6

FOREIGN AND CANADIAN OWNED FIRMS BY ASSET SIZE  
BY INDUSTRY, 1971

## NUMBER OF CORPORATIONS

ASSET SIZE:	Under \$1 ml.	\$1-5 mn.	\$5-10 mn.	\$10-25 mn.	\$25 mn. +	Total
<i>Industry Group</i>						
Agriculture:						
Foreign.....	59	27	3	1	2	92
Canadian.....	1,455	113	8	1	1	1,578
Unclassified.....	5,353	....	....	....	....	5,353
Mining:						
Foreign.....	177	175	60	59	77	548
Canadian.....	734	332	45	35	30	1,176
Unclassified.....	2,016	....	....	....	....	2,016
Manufacturing:						
Foreign.....	761	927	283	192	180	2,343
Canadian.....	5,370	1,719	222	101	100	7,512
Unclassified.....	12,143	....	....	....	....	12,143
Construction:						
Foreign.....	72	61	13	23	13	182
Canadian.....	3,814	818	62	38	14	4,746
Unclassified.....	16,365	....	....	....	....	16,365
Utilities:						
Foreign.....	94	96	31	21	26	268
Canadian.....	1,387	452	76	59	77	2,051
Unclassified.....	6,743	....	....	....	....	6,743
Wholesale Trade:						
Foreign.....	884	473	91	41	30	1,519
Canadian.....	6,127	1,203	101	44	23	7,498
Unclassified.....	16,082	....	....	....	....	16,082
Retail Trade:						
Foreign.....	196	153	14	19	11	393
Canadian.....	5,682	582	42	24	19	6,349
Unclassified.....	27,110	....	....	....	....	27,110
Services:						
Foreign.....	307	165	31	21	14	538
Canadian.....	3,505	608	57	24	9	4,203
Unclassified.....	26,042	....	....	....	....	26,042
Total—						
Non-Financial Industries:						
Foreign.....	2,550	2,077	526	377	353	5,883
Canadian.....	28,074	5,827	613	326	273	35,113
Unclassified.....	111,854	....	....	....	....	111,854

Source: 1971 CALURA Report, Part 1.

TABLE 7

## FOREIGN DIRECT INVESTMENT INFLOWS, 1966-74

millions  
of dollars

1966.....	790
1967.....	691
1968.....	590
1969.....	720
1970.....	835
1971.....	885
1972.....	715
1973.....	720
1973-74*	535

\*4 quarters ending 2nd quarter 1974.

Source: Statistics Canada.



# Persons who Appeared Before the Select Committee— Economic Nationalism

## COMMITTEE HEARINGS

1972

Toronto	January 12, 13, 19	C. Peter Honey, Esq., Chairman of the Interdepartmental Task Force on Foreign Investment
Toronto	January 17	Dr. A. E. Safarian, Dean, School of Graduate Studies, University of Toronto
Toronto	January 18	Professor Geoffrey R. Conway, Lecturer in Business Administration, York University
Toronto	January 24	Robert W. Bonner, Esq., Q.C.
Toronto	January 25	Professor Melville Watkins, Political Economy Department, University of Toronto
Toronto	January 26	Robert M. MacIntosh, Esq., Deputy Chief General Manager, The Bank of Nova Scotia
Toronto	January 27	The Executive of the Committee for an Independent Canada: The Honourable Walter L. Gordon, P.C., Edwin A. Goodman, Esq., Q.C., Professor Abraham Rotstein, J. L. Biddell, Esq., Peter C. Newman, Esq.
Toronto	February 2	Professor I. A. Litvak, Department of Economics, Carleton University
Toronto	February 8	Senate Committee on Science Policy: Senator Maurice Lamontagne, P.C., Mr. Phillip Pocock
Ottawa	February 9	Dr. Karl Levitt, Department of Economics, McGill University, The Honourable Eric Kierans, P.C.
Ottawa	February 10	William Dodge, Esq., Secretary-Treasurer, Canadian Labour Congress
Sudbury	February 15	His Worship Mayor Michael Solski, Town of Coniston, Donald Lyons, Esq., Business Agent, Rock and Tunnel Workers, Local 183, M. C. "Bud" Germa, Esq., M.P.P. Sudbury, M. McGuire, President Local 6500, United Steel Workers of America, Gilbert Gilchrist, Esq., United Steelworkers of America, James Tester, Esq., President, Mine, Mill and Smelter Workers, Floyd Laughren, Esq., M.P.P., Nickel Belt, John Rodriguez, Esq., Alderman, Town of Coniston, Murray Davidson, Esq., Deputy Mayor, City of Sudbury,

		John McCready, Esq., Vice-President and General Manager, Ontario Division, International Nickel Company of Canada Limited, Mr. D. Judges and Shane MacKay, Esq., Assistant Vice-President, International Nickel Company of Canada Limited
Toronto	February 16	Percy W. Bishop, Esq., Kenneth Rowe, Esq., Industrial Commissioner, Town of Mississauga
Toronto	February 17	Professor John Crispo, School of Business Administration, University of Toronto Dr. James Gillies, Chairman, Ontario Economic Council.
Toronto	February 18	Douglas H. MacAllan, Esq., Executive Assistant to the Chairman, Imperial Oil Limited, J. Flavelle Barrett, Esq., Q.C., General Counsel, Imperial Oil Limited
Toronto	August 2	Robert Kaplan, Esq., M.P., Dr. Omond Soldandt
Toronto	August 3	Mr. Lewis Applebaum, Executive Director of the Province of Ontario Council for the Arts, Mr. J. Adamson, Chairman of the Council, Colonel Frank McEachren, Vice-Chairman, Ron Evans of the Council's staff, David Archer, Esq., of the Ontario Federation of Labour
Toronto	August 8	Alan Heisey, Esq., Mr. J. E. Brent, Chairman of the Board I.B.M. Canada Ltd., and Mr. W. V. Moore, President and Chief Executive Officer.
Toronto	August 9	Professor George Sinclair, Faculty of Electrical Engineering, University of Toronto, Mr. William Stewart, Leader of the Communist Party of Canada, Ontario Branch, Thomas Clement, Esq., of the 85% Canadian Quota campaign
Toronto	August 10	Mr. John Boyle, Ontario spokesman for the Canadian Artists Representation, Mr. George Jackson, Securities Representative, from Milton, Ontario, Mr. John Gregorovitch and Mr. A. Gregorovitch, of the Canadian-Ukrainian Research Foundation Mr. Peter Hunter, McConnell Advertising Ltd., Mr. Henry Karpus, Ronald-Reynolds & Company Ltd.
New York	August 14	Mr. Bruce I. Rankin, Canadian Consul-General Mr. Donald Armstrong, Deputy Consul-General for Canada

New York	August 15	Mr. Robert M. Norris, President of the National Foreign Trade Council, Mr. Louis C. Feffer, Director of Trade and Investment Analysis, Mr. Melville H. Walker, Vice-President and Treasurer of the Council Professor Tom Franck, Director of International Studies, New York University, Professor Edward Weisband, Deputy Director of International Studies, New York University, Mr. Barry Lando, CBS News, Washington, Mr. Mario Amaya, Director, New York Cultural Centre
New York	August 16	Mr. Robert Bennett, Vice-President, I.B.M. World Trade Corporation, Mr. Jeffrey Keene, Director, International Affairs, and Mr. W. C. Moore, President and Chief Executive Office, I.B.M., Canada George C. Scott, Esq., Vice-Chairman, First National City Bank, George J. Clark, Senior Vice-President, Wilfred Farnsworth, Vice-President, Harold van Buren Cleveland, Vice-President, Laurence Glenn, Vice-President, B. H. Kjellegren, Assistant Vice-President and James Butler, Assistant Cashier, First National City Bank
New York	August 15	Mr. W. E. Quigley, Vice-Chairman, The Anaconda Company, Donald F. Cornish, Esq., President, Anaconda Canada Ltd.
New York	August 17	David C. Fuchs, Esq., Director of Program and Administration, Marketing Services, CBS News, Robert F. Jamieson, Esq., Director of Business Administration, Columbia Broadcasting System, and Harry R. Olsson, Esq., General Attorney, Columbia Broadcasting System, Professor Peter Evans, Department of Sociology, Brown University, Providence, Rhode Island, Mr. Ralph P. Davidson, Publisher, Time Magazine, Mr. Steven Larue, President, Time Canada and other officials of Time Magazine
Paris, France	September 18	Officials of Pechiney Ugine Kuhlman: Mr. R. Chambard, Director, Relations internationales; Mr. J. L. Dherse, Director, American Branch; Mr. Pache, Director, Uranium Branch; Mr. Masson, Director, Mines; Mr. Serge Lazareff, Director of Legal Services Mr. Jean de la Motte de Broons, Ministere de l'Economic nationals et des Finances, Chef du Bureau des Investissments etrangers, Direction du Tresor

Paris, France	September 19	Mr. Denis Georges-Picot, Minister de l'Economie nationale et des Finances, Sous-directeur du Bureau des Investissements étrangers, Direction du Tresor His Excellency Leo Cadieux, Canadian Ambassador to France
Paris, France	September 20	Mr. B. Gestrin, Director, Country Studies and Prospects Branch, Organization for Economic Co-operation and Development (OECD), Mr. G. Broker, Financial Affairs Directorate, OECD, Mr. B. Roelants du Viviers, Industry and Energy Directorate, OECD, His Excellency, Mr. Jean-Louis Gagnon, Canadian Ambassador to U.N.E.S.C.O., Mr. A. Seydou, Director, Cultural Department, U.M.E.S.C.O., Mr. Philippe Podevin, Charge de Mission, Delegation a l'Aménagement du Territoire et a l'Action Régionale, (DATAR)
Brussels, Belgium	September 21	Mr. Gerard Montassier, Secrétaire général du Fonds d'Intervention Culturelle, and officials of the Ministry of Culture
Brussels, Belgium	September 22	Mr. J. A. Roy, Charge d'Affaires, Canadian Chancellery, Mr. A. Morris, Director General, Dr. W. Stabenow, Head of Harmonization and Co-ordination Division, and Dr. D. Maltzahn, Head of Division, of the European Economic Community, Mr. A. Coessens, Director General, Industrial Administration, Mr. R. Charlier, Director, Foreign Investments, and Mr. M. Pochet, Special Assistant to the Minister, Ministry of Economic Affairs
Brussels, Belgium		Mr. J. Remiche, Administrateur général, Mr. C. Pirlot, Chef de Service, Service des Arts Plastiques, Mr. Cantillon, Conseiller adjoint, Service de Documentation et inspection, Mr. J. Remy, Conseiller musical, Mr. R. Leonard, Conseiller adjoint, Statistique culturelle et planning, Mr. L. Joassin, Conseiller littéraire, Mr. De Meter, Statistique culturelle et planning, Mr. G. H. Dumont, Chef de Cabinet, Ministries of Culture, Mr. W. Debrock, Director General, Mr. W. Juwet, Director, National Cultural Institutions, Mr. J. Kestelyn, Director, Music and Lyric Arts, Mr. C. Haesaerts, Counsellor, Literature, Ministry of Dutch Culture, Mr. H. Newman, President,

		Mr. C. Gijsselinck and Mr. F. Herman, Directors, Mr. J. DeSchuiteneer, and Mr. D. Bribois, Deputy Directors, National Investment Corporation, Mr. R. Allo, Headquarters Director, Mr. C. Demeure, Director of the Foreign Department, Mr. A. Delvaux, Assistant Director, Mr. A. De Merode and Mr. L. Van de Vijver, Director of Public Relations, Genstar
Ghent, Belgium	September 23	Professor D. van den Bulke, Toegepaste Economie, Brj de Rijksuniversiteit Gent
Dusseldorf, Germany	September 25	Herr Ministerialdirigent Kleiner, Herr Diplo-Soziologe Schmelzle, Herr Regierungsdirektor Becker, Office of the Federal-Provincial Co-ordination Herr Staatssekretär Golz, Herr Leitender Ministerialrat Offers, Herr Leitender Ministerialrat Reiche, Herr Leitender Ministerialrat, Dr. Richthof, Herr Oberamtsrat Kempe, Ministry for Economics and Transport, Dr. Wilhel Lenz, Landtagspräsident, Herr Georg Neemann, Herr Dr. Hans Georg Wehner, Herr Willi Gottman, and Herr Edmund Duder, German Federation of Trade Unions
Bonn, Germany	September 26	His Excellency H. H. Crean, Canadian Ambassador to Germany, Minister Counsellor A. de W. Mathewson, Minister Counsellor Wm. Jones, and Counsellor Miss D. Armstrong, Mr. Werner Junge, Associate Managing Director and Head of Law Branch, Frau Dr. Franziska Haenert, Specialist, Medium Industry Problems, Mr. Joachim Krepelin, Legal Branch, Mr. Hans Haupt, Foreign Economic Branch, Mr. Johannes Haubenreisser, Foreign Economic Branch of the Deutsche Industrie und Handelstag, Mr. K. U. Gocksch, Head of Foreign Trade, Mr. C. L. Holtfreich, Deputy Head of Foreign Trade, Mr. Meyer, Regional Structure, Mr. Jacob Esser, Integration and Development Policy, Count von Wolff-Metternich, Management Training, and Dr. Hermanns, Competitive Code of the Bundesverband der Deutschen Industries,

		Dr. Wolf-Dieter Linder, Head of the International Social Policy Section, on behalf of the Bundesverband der Deutschen Arbeitsgeber, (Federal Association of German Employees) Dr. Kurt Frey, General Secretary, Permanent Conference, Laeunder Culture Ministers
Bonn, Germany	September 27	Dr. Thieme, Head of Countries Division, Mr. Mertens, Industry Policy Section, Dr. von Preuschen, Regional Economic Policy, Dr. Jahn, Foreign Trade Law, Dr. Langer, Investment questions, Mr. Weise, Technology, Dr. Flandorffer, Foreign Economic Policy, Mr. Pitzer, Law Section, Mr. Schroeter, Trade Structure Policy, Mr. Schulze, Economic Questions in the Field of Mass Media and Publishing, Mr. Flicker, North American Section, Dr. Abel, North American Section, Miss Burre, North American Section, Ministry of Economics and Finance
Stuttgart, Germany	September 28	Dr. Moeller, Wirtschaftsministerium fuer Baden- Wuerttemberg, Mr. Gnauert, Dr. Witt, and Mr. Robert Bosch, GMBH, Stuttgart
Basel, Switzerland	September 29	Mr. Edwin Mallory, Assistant Commercial Secretary, Canadian Embassy, Dr. Hans Fehr, Vice-Director, Hoffman La Roche, and Mr. Alfred Matter, Director of the Swiss Bank Corporation, and officials of both companies, Dr. H. Oberhunsl,. Manager of the Union Bank of Switzerland, Mr. F. Purtscert, Manager, Union Bank, Mr. A. Oegelin, General Manager of the Swiss Popular Bank, Dr. Alfred Sulzer, Chairman of Handelsbank, Dr. Hans J. Mast, Manager of Swiss Credit Bank, and Mr. Robert H. Lutz, Member of the General Management of Swiss Credit Bank, Mr. E. Bernhardt, Director of Brown Boveri, Baden, Mr. M. Zublin, Director, Sulzer AG, Winterthur, Mr. Andre Muller, Director General, Nestle SA, Vevey, Dr. E. Luk Keller, President, Eduard Keller, SA (export, import), Dr. Peter Hutzli, Secretary of the Swiss Trade and Industry Association

Berne, Switzerland	October 2	Minister P. A. Nussbaumer, Director Financial and Economic Service of the Federal Political Department, and Mr. Erwin Bischoff, Assistant, Dr. Robert Madory, Director, Division of International Matters, Department of Public Economy, Mr. Hans Greiner, Canada Desk, Division of Commerce, Department of Public Economy, Mr. Bernard Stofer, Division of Political Affairs (West) Federal Political Department, Dr. Rudolph Widmer, Public Economy Division, National Bank, Zurich, Mr. Charles Levinson, Secretary General, International Federation of Chemical and General Workers Union, Dr. W. Jucker, President, Swiss Labour Unions, Mr. G. Nobel, Secretary, Swiss Labour Unions, and Mr. E. Wuethrich, Secretary, Metal Workers Union, Mr. S. Huber, Economic and Regional Planning Branch, Department of Public Economy, Professor U. Hochstrasser, Delegate, Science and Research Division, Department of Internal Affairs, Mr. Max Alterfer, Chief, Cultural Affairs, Department of Internal Affairs, Dr. Peter Berger, Vice-President, Chamber of Commerce, Berne, Mr. H. U. Aebi, Director, Chamber of Commerce, Berne, Mr. Sam Jaum, Secretary, Cultural Affairs, Berne, Dr. Paul Burgi, Member of the National Council
Stockholm, Sweden	October 4	Mrs. Birgit Assarsson, Ministry of Education, and Mr. Bo Lagercrantz, National Council of Cultural Affairs, Mr. Peter Wallenberg, and Mr. Bengt Andersson, Directors of Atlas Copco, and other officials of Atlas Copco, Mr. Wilhelm Paues, Director of the Department of International Affairs, Federation of Swedish Industries, Mr. Erik Pettersson, and Mr. Sten Niklasson, of the Ministry of Industry
Stockholm, Sweden	October 5	Mr. Sven Bauer, Barrister, and Mr. Styrbjorn Garde, Barrister, Mr. Ulf Berggren, Director of the Employees Association of the Swedish Petroleum, Mr. Erik Pettersson, and Mr. Sten Niklasson, of the Ministry of Industry

Stockholm, Sweden	October 6	Mr. Torsten Carlsson, Manager of the Planning Division, and Mr. E. Tandberg, along with other officials of the Skandinaviska Enskilda Bank, Mr. Lennart Reuterfalk, and other officials of Astra AB, Pharmaceuticals
London, England	October 9	Right Honourable Chris Chataway, Minister for Industrial Development, Mr. Richard Tait, Minister-Counsellor, Economic, and Mr. M. Sharp, and L. Berry, Mr. Robin Gray, Undersecretary, Industrial and Commercial Policy, Mr. J. Lippitt, Undersecretary, Industrial Development Unit, Department of Trade and Industry, Mr. R. C. Cooper, and Dr. H. Ivey, Industrial and Commercial Policy Division, Department of Trade and Industry, Mr. T. Burgner, Chairman of the Exchange Control, Treasury, Professor Kenneth Simmonds, Graduate, School of Business Studies
London, England	October 10	Dr. R. F. Knott, International Division, Imperial Chemical Industries Limited, Mr. James Hurlock, Barrister and Solicitor, Mr. Donald Madden, Barrister and Solicitor, Mr. William Clark, M.P., Member for East Surrey, Mr. Albert Cooper, M.P., Member for Ilford South, Mr. Peter Trew, M.P., Member for Dartford, Mr. Trevor Skeet, M.P., Member for Bedford, Mr. John Hall, M.P., Member for Wycombe
Toronto	November 7	Mr. Peter Honey, Ministry of Treasury, Economic and Intergovernmental Affairs, Mr. J. Gregg O'Neil, Management Board of Cabinet
Toronto,	January 9, 1973	Mr. Charles Geoffroy, Young and Rubicam Ltd., Mr. Edward D. Brown, Doyle, Dane, Bernbach Advertising Ltd., Mr. Graham Campbell, Norman, Craig and Kummel, Mr. Harold Johnston, Leo Burnett Co., Ltd., Mr. Bruce McLean, Needham, Harper & Steers of Canada Ltd., Mr. George Cross, Spitzer, Mills & Bates Limited, Mr. James Reeve, McCann-Erickson/Advertising of Canada Ltd., Mr. Donald Robertson, J. Walter Thompson Co., Ltd.,

Toronto	January 10	John Straiton, Ogilvy & Mather (Canada) Ltd., Mr. A. G. Kershaw, Chairman of the Board, Ogilvy & Mather (Canada) Ltd., Mr. Brian Skinner, President, Brian Skinner Communications Ltd., Mr. Ivor Downie, President, Downie Advertising Ltd., Mr. Cal McLauchlan, Vice-President, McLauchlan, Mohr Ltd.
Toronto	January 11	Mr. Don Robertson, President, J. Walter Thompson Company, Mr. Jack Cronin, Executive Vice-President, and Director of Canadian Operations, Mr. Richard Kostyra, Vice-President and Director of Communications, Mr. Neville Sargeant, Secretary-Treasurer, Mr. Alan Jones, Senior Vice-President of parent company, and Mr. Jerrold Beckerman, Mr. Paul Siren, Executive Secretary of Canadian Radio and Television Artists (ACTRA), Dr. Harold Crookell, Assistant Professor of International Business, Western University
Toronto	January 16	Mr. Anthony Adamson, Chairman, Province of Ontario Council for the Arts, Mr. Louis Applebaum, Executive Director of the Council, Mr. Ronald Evans, Film and Literary Officer, Mr. Frank McEachren, Vice-Chairman, Mr. Arthur Gelber, Council Member, Hon. Senator Keith Davey
Ottawa	January 17	Mr. David Trealeven, Mr. Albert Roy, M.P.P. for Ottawa East, Mrs. Sheila Bresalier, of the Committee for an Independent Canada, Mr. John Harney, M.P. for Scarborough West, Mr. Peter Riley, M.P. for Ottawa West
Ottawa	January 18	Mr. Geoffrey Wastneys, President, Wastneys Associated Consultants Ltd., Mr. Alexander Cullen, President, Ontario Student Liberals
Hamilton	January 23	Mr. Bruce Beaumont, Mitchell, Ontario, Mr. Ralph Ellis, Chairman, Hamilton Committee for Independent Canadian Unions, Mr. Michael Kurk, Stoney Creek, Ontario, Mr. J. Malzan, National Canadianization Committee, Hamilton, Mr. Harold Dixon, and Mr. Robert Brechin, members of the Hamilton Chamber of Commerce, Taxation Committee,

		Mr. Robert Mackenzie, Staff Representative, United Steel Workers of America, Hamilton, Professor S. J. Frankel, Dean of the Faculty of Social Sciences, MacMaster University, Dr. Grayson, and Dr. McKie, Lecturers, Department of Sociology, University of Western Ontario
Windsor	January 24	Mr. Michael Waffle, Professor J. Alex Murray, International Business, University of Windsor, Dr. R. G. Quittenton, President, St. Clair College, Dr. Lloyd Brown-John, Department of Political Science, University of Windsor, Mr. M. M. Sumner, President, Sumner Printing Limited, Mr. Edward H. Donnelley, Ms. Shirley Bradley, Mr. Gerald Romsa, Mr. Bruce Gunn, Mr. Tom Roden, Mr. Dean LaBute
Timmins	January 30	Michael Farrell, President, Cochrane South, New Democratic Party, Douglas Little, Mr. Thomas E. Bell, His Worship Mayor Leo Delavalano, Mr. Cecil Hewitt, General Manager, North Eastern Ontario Development Corp., Alderman Michael Doody, City of Timmins, Alderman Alan Pope, City of Timmins
Thunder Bay	February 1	Miss Diane Robinson, on behalf of 85% Canadian Quota Campaign, Mr. Louis Peltier, Thunder Bay, Ms. Rita Ubriaco
Toronto	February 13	Dr. D. Carleton Williams, President, University of Western Ontario, and Dr. John B. Macdonald, Executive Director of the Council of Ontario Universities
Toronto	February 15	Dr. Robert Haynes, Chairman of the Biology Department of York University, Dr. Jill Conway, Vice-President, (Internal Affairs), University of Toronto
Toronto	February 20	Dr. Stefan Dupre, Chairman of the Department of Political Economy, University of Toronto, Dr. James A. Gibson, President of Brock University
Toronto	February 21	Dr. John Porter, Sociology Department, Carleton University
Toronto	February 28	Mr. A. J. Herridge, Assistant Deputy Minister of Natural Resources,

		Mr. J. W. Giles, Assistant Deputy Minister of Lands and Waters, Mr. Gordon Simons, Supervisor, Control Section, Division of Lands, Mr. Grant Ferguson, Q.C., Director Legal Services Branch, Ministry of Natural Resources
Toronto	March 1	Mr. C. Peter Honey, Deputy Minister for Urban and Regional Planning, Mr. Eric Flemming, Executive Director for Urban and Regional Planning, and Mr. Donald Taylor, Executive Director, Local Government Services Division, Ministry of Treasury, Economics and Intergovernmental Affairs, Honourable Jack McNie, Minister, Colleges and Universities
Toronto	March 6	Dr. K. Jean Cottam, Mr. Barry Lord and Mrs. Denise Havers, 85% Canadian Quota Campaign
Toronto	July 24	Mr. Robert Sirman, Executive Officer, Provincial Secretariat for Social Development
Toronto	July 25	Mr. Donald Martyn, Executive Director, Community Services Division, Ministry of Community and Social Services
Toronto	July 30	J. Douglas McCullough, Cultural Affairs, Ministry of Colleges and Universities
Toronto	August 14	Mr. C. F. Bray, of the Federated Council of Sales Finance Companies, Mr. H. Freure, Chairman of H.U.D.A.C., (Ontario Housing Council), Mr. H. Freure, Chairman of H.U.D.A.C., Mr. E. W. Assaly, immediate past chairman of the Ontario Council, Mr. M. Lalande, member of the Council Executive, Mr. D. Ward, Vice-Chairman, Mr. Peter Stevens, staff member of the Ontario Council
Toronto	August 15	Mr. A. G. Buk, Assistant Vice-President, International Division, Metropolitan Trust Company, Mr. A. J. Russell, Vice-President, Administration, Metropolitan Trust Company
Toronto	August 16	Mr. A. R. Grant, Wimpey Homes Limited, Mr. R. A. Wykes, Monarch Homes Ltd.
Toronto	September 5	Mr. Kenneth Rotenberg, President, Mr. A. E. Diamond, Vice-President, Mr. W. Mowbray Sifton, Vice-President,

Toronto	September 6	Mr. Garth Macdonald, Q.C., Executive Director of the Canadian Institute of Public Real Estate Companies
Quebec City	January 29, 1974	Mr. C. H. Bray, Executive Director of the Federated Council of Sales Finance Companies, and Mr. Clarke Brain, Vice-President Traders Group Limited
Quebec City	January 30	Mr. J. Douglas McCullough, Assistant Deputy Minister, Cultural Affairs, Minister of Colleges and Universities, Consultant, Mr. Guy Fregault, Deputy Minister of Cultural Affairs, Mr. Marcel Junius, Director of Historical Sites Restoration, Heritage Cultural Branch, Gaston Harvey, Director of External Cultural Relations, and Mr. M. Dagneau, and Mr. M. Y. Ledene, Honourable Jean-Paul L'Allier, Minister of Communications
Toronto	February 22	Honourable Paul Phaneuf, Minister of Youth and Sports, The Speaker, Clerk and Deputy Clerk of the Quebec National Assembly
		Mr. Omer Deslauriers, Chairman, Mr. Remy Beauregarde, Secretary, Mme. Angelique Gravelle, Association Canadian-Francaise de l'Ontario.

## Briefs Filed with the Select Committee— Economic Nationalism

Agency Forum—

Brian Skinner Communications, Downie Advertising Ltd., McLauchlan, Mohr, Ltd.....	January, 1973
Miss Ellen Anderson, Chesley, Ontario.....	February, 1972
Mr. Bruce Beaumont, Mitchell, Ontario.....	January, 1973
Mr. Harvey Brennan, Windsor, Ontario.....	January, 1972
Mr. H. B. Caldwell, Malton, Ontario.....	January, 1972
Canadian Drug Manufacturers Association, Toronto.....	January, 1972
Canadian Life Assurance Association, Toronto.....	March, 1972
Canadian Advertising Representatives—	
McConnell Advertising Company Ltd., Ronalds-Reynolds & Company Limited, McLaren Advertising Limited, Vickers & Benson Ltd....	August, 1972
Canadian Institute of Public Real Estate Companies.....	1973
Committee for an Independent Canada, Edwin Goodman.....	January, 1973
Committee for an Independent Canada, Walter Gordon.....	January, 1973
Committee for an Independent Canada, Peter Newman.....	
Committee for an Independent Canada, J. L. Biddell.....	
Committee for an Independent Canada, Ottawa Chapter.....	
Mr. Edward Carrigan, Toronto, Ontario.....	January, 1972
Cochrane South New Democratic Party, Ontario.....	1973
Communist Party of Canada, Ontario Committee.....	August, 1972
Mr. Bill Cruikshank, Toronto, Ontario.....	March, 1973
Senator Keith Davey, Chairman, Special Committee on the Mass Media.....	
Mrs. L. Day, Sarnia, Ontario.....	January, 1973
Editcomm Inc., Toronto, Ontario.....	July, 1973
85% Canadian Quota, Toronto, Ontario.....	February, 1973
85% Canadian Quota, Thunder Bay, Ontario.....	February, 1973
Hamilton Committee for Independent Canadian Unions.....	January, 1973
Imperial Oil Limited, Toronto, Ontario.....	December, 1972
Mr. Marvin T. Lee, Toronto, Ontario.....	October, 1973
Mr. D. C. MacCharles, Oakville, Ontario.....	February, 1972
Mr. E. D. K. Martin, Toronto, Ontario.....	January, 1972
Mr. J. G. McClelland, Toronto, Ontario.....	February, 1972
Mr. Richard Melanson, Toronto, Ontario.....	February, 1972
Mutual Life Assurance Company of Canada, Toronto.....	February, 1972
National Canadianization Committee.....	
The Ontario Economic Council, Toronto, Ontario.....	February, 1972
Ontario Federation of Labour, Don Mills, Ontario.....	February, 1972
Ontario Student Liberals, Toronto.....	
Ontario Arts Council, Toronto.....	January, 1974
Mr. T. M. Paikeday, Toronto, Ontario.....	March, 1973
Mrs. S. Prue, Emo, Ontario.....	June, 1973
Mr. W. H. Pugsley, Toronto, Ontario.....	
Dr. R. C. Quittenton, Windsor, Ontario.....	
Mr. T. Roden, Windsor, Ontario.....	January, 1973
Mr. O. Rudzik, Toronto.....	

Mr. George Sinclair, Toronto.....	June, 1972
Mayor Solski, Coniston, Ontario.....	February, 1972
The Steel Company of Canada, Toronto.....	March, 1973
Sudbury Local 598, Mine-Mill Union, Sudbury.....	February, 1972
Sudbury Rock & Tunnel Workers' Union—Local 183.....	
Mr. Wynton Semple, Toronto.....	
Stelco, J. Peter Gordon,.....	March, 1973
Michael L. Waffle, Windsor, Ontario.....	January, 1973
Mrs. May B. Wilson, Willowdale, Ontario.....	February, 1972
Windsor and District Labour Council, Windsor.....	January, 1972
Ten Canadian Advertising Agencies—	
Doyle, Dane, Bernbach Advertising Ltd., Foote, Cone & Belding Advertising Ltd., Spitzer, Mills & Bates Ltd., Norman, Craig and Kummel (Canada) Ltd., Young & Rubicam Ltd., Leo Burnett Company Ltd., Needham, Harper & Steers of Canada Ltd., McCann-Erickson Advertising of Canada Ltd., J. Walter Thompson Co. Ltd., Ogilvy & Mather (Canada) Ltd.....	
The United Electrical Radio and Machine Workers of Canada.....	December, 1972
Professor E. P. Sanders, Department of Religion, McMaster University	February, 1972
Professor P. M. Clifford, Department of Geology.....	February, 1973
Administration of McMaster University, Hamilton.....	March, 1973
Professor R. D. Lambert, Department of Sociology, University of Waterloo.....	January, 1973
Dr. S. L. Black, Department of Sociology, University of Western Ontario.....	February, 1973
Professor J. Paul Grayson, Department of Sociology, University of Western Ontario.....	January, 1973
Professor C. McKie, Department of Sociology, University of Western Ontario.....	January, 1973
Professor Alex Murray, International Business Studies, University of Windsor.....	January, 1973
Dr. C. Lloyd Brown-John, Department of Political Science, University of Windsor.....	January, 1973
Professor D. J. Daly, Faculty of Administrative Studies, York University.....	June, 1973

## SUMMARY OF RECOMMENDATIONS

### FOREIGN OWNERSHIP OF ONTARIO REAL ESTATE

#### Ownership of Real Estate by Individuals\*

1. The Committee recommends, subject to recommendation 2, that all future transfers of legal or equitable (including leasehold) interests in real property in Ontario to individuals, directly or indirectly, be restricted to Canadian citizens and landed immigrants in Canada.\*
2. The Committee recommends that individuals who are neither Canadian citizens nor resident landed immigrants be entitled to lease real property in Ontario for a maximum period of 1 year without option of renewal being included in the arrangement.\*
3. The Committee recommends that persons who, subsequent to the implementation of recommendation 1, acquire real property in Ontario (other than by short-term lease) as landed immigrants resident in Canada, and who subsequently lose their resident landed immigrant status other than by becoming Canadian citizens, be required to dispose of property so acquired within three years of the effective date of their change in status.\*
4. The Committee recommends that individuals otherwise ineligible to acquire real property in Ontario who are designated as beneficiaries of real property in Ontario under a will or intestacy be required to dispose of the property so acquired within three years.\*
5. The Committee recommends that municipalities in Ontario be empowered to levy a surcharge of up to 50% of the real property tax otherwise applicable in respect of land owners in Ontario not ordinarily resident in Canada.\*
6. The Committee recommends that the policy and practice with respect to real estate on which property tax obligations are in default be reviewed with particular attention to public advertisement, notification to adjoining owners, auctioning and tendering, and uniformity of procedure.

#### Commercial and Corporate Real Estate Ownership\*

7. The Committee recommends, subject to recommendation 8, that all future acquisitions of land in Ontario other than by individuals be restricted to corporations or ventures not less than 75% owned by Canadian citizens, or landed immigrants resident in Canada.\*
8. The Committee recommends that corporations less than 75% owned by Canadian citizens or resident landed immigrants, who can establish that it is bona fide in the nature of their business to acquire land on a regular basis for real estate development or finance, have the option of becoming 75% owned by Canadian citizens or resident landed immigrants as a condition of being entitled to continue to acquire land during the period required to obtain a fair price for the corporations' shares on the Canadian market.
9. The Committee recommends that corporations or ventures less than 75% owned by Canadian citizens or resident landed immigrants be entitled to obtain leasehold interest in land in Ontario on terms appropriate to their commercial needs.
10. The Committee recommends that suitable procedures be devised, consistent with the Committee's overall recommendations and objectives, to assure that mortgagees irrespective of ownership are accorded suitable remedies on default of mortgage obligations.

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

11. The Committee recommends that foreign ownership of or investment in real estate other than land in Ontario should be investigated further as a priority matter, with a specific view to assessing the desirability of extending the Committee's recommendations regarding commercial and corporate ownership of land to all real property in the province. A study should include an examination of:

- (a) the role of foreign investment in the behaviour and performance of markets for and development of real estate other than land in Ontario;
- (b) the extent and nature of Ontario's requirements, if any, for foreign capital for real estate development;
- (c) the other various aspects of foreign ownership of or investment in real property other than land identified in the foregoing discussion.

#### Public Land and Public Access

12. The Committee recommends that the amount of Crown land made available for leasing for cottage lot purposes, and its distribution across various regions of the province, be more systematically geared to Canadian demand, having regard to the amount of Crown land available and the long term recreational needs of present and future generations in Ontario.
13. The Committee recommends that Crown land for cottage lots be leased only to Canadian citizens, and landed immigrants resident in Canada.
14. The Committee recommends that no Crown lands be patented to other than Canadian citizens or landed immigrants resident in Canada, or to corporations or ventures less than 75% owned by Canadian citizens or landed immigrants resident in Canada. The Committee recommends that other corporations or ventures be entitled to lease Crown land, where appropriate, on appropriate terms and conditions.\*
15. The Committee recommends that the Government intensify its efforts to increase the availability and distribution of public recreation facilities and to devise long term solutions to providing ready public access to the various kinds of amenities which Ontario's natural heritage affords.
16. The Committee recommends that to the extent possible, and consistent with its previous determinations in regard to foreign ownership of land, the policy and practice in respect of surface rights in connection with mining be developed to accommodate a variety of uses simultaneously, including public access for recreation purposes.
17. In respect of forest lands, the Committee similarly recommends that efforts be intensified towards developing appropriate multiple use solutions for these lands, consistent with the Committee's other recommendations on land ownership.

#### Information

18. The Committee recommends that the Government prepare and publish, on an annual basis, detailed ownership and residence data by region and by use, for land owned both by individuals and corporations in the province. The Committee further recommends that such data be developed in a manner which will generally support and facilitate the ongoing analysis of the behaviour and performance of real estate markets and institutions in Ontario.

#### Constitutional Issues

19. The Committee recommends that the Government of Ontario take the position that legislation of the kind the Committee has recommended with respect to real property in the province is within the powers of the province.

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

## Implementation

20. The Committee recommends review and implementation of its recommendations as a matter of urgency and priority, and that consideration be given to the early promulgation of a date on which the implementation of the Committee's recommendations would take effect.\*

## COLLEGES AND UNIVERSITIES IN ONTARIO

21. The Committee recommends, that legislation be introduced to provide that within five years all chancellors, boards of governors or equivalent, presidents, vice-presidents, deans and chairmen of departments at universities in Ontario be Canadians.
22. That universities be directed to advertise all academic vacancies well in advance of the date on which it is intended offers will be made, in at least the two periodicals which are likely to reach the widest audience among prospective Canadian candidates in the discipline for which applicants are sought.
23. That no university faculty in Canada should pay less than the Canadian rate of tax applicable to his or her financial circumstances.
24. That the Minister of Colleges and Universities establish machinery both within the government and in concert with the university community to discuss, design, develop, and implement province-wide plans for the development of graduate programme capacity in all major disciplines among the various universities in Ontario, and including the re-examination of the procedures for funding graduate programmes and maintenance funding of graduate students.
  - (b) That such plans have as their objective the development of graduate programmes likely to attract the highest international reputation and the ablest degree candidates from both Canada and abroad.
  - (c) That graduate programmes in Ontario be developed to a point somewhat in excess of the requirements of government, business and the universities in Ontario for advanced graduates.
  - (d) That plans for graduate programme development in Ontario specifically take account of foreseeable trends in enrolment in universities, as well as having regard to the overall demand for graduates at the various levels of the various disciplines.
25. That these initiatives include new policies to develop programmes, materials and courses of special importance to Canada.
26. As regards university faculties, that each university in Ontario establish machinery to assure that very substantially higher percentages of its new faculty appointments are Canadian citizens on appointment, and that a similarly high proportion have obtained most or all of their graduate training at Canadian universities.
  - (b) That the Minister of Colleges and Universities review annually the patterns of new faculty appointments of Ontario universities to determine their progress in complying with the Committee's recommendation.
  - (c) Should there be other than substantial progress in the next three years, that for each university in Ontario, averaged over the 7 subsequent years, 80% of new appointments be from among those who have obtained most or all of their graduate training at Canadian universities.\*

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

27. That all universities be required to submit, on an annual basis, and by department, the citizenship and countries of undergraduate and graduate training of all new appointees, tenured faculty, department heads and other academic ranks, departures from strength, and persons on limited term appointments.
  - (b) That "suppression rules" of the kind used by Statistics Canada and endorsed by the Council of Ontario Universities not be employed in the collection and collation of data the Committee has recommended.
  - (c) That data submitted by the universities be considered unsatisfactory, if, in any one information category, more than 1% of the data is incomplete, inaccurate, not supplied, or deficient in some other respect.
28. That each department in each university be required to report annually and in suitably descriptive form on the extent to which courses in the department reflect Canadian facts and problems, in each course as appropriate, the extent to which Canadian facts and problems are reflected in the curriculum of the department, the extent to which the curriculum and particular courses reflect priorities appropriate to Canada, and the extent to which research and development of new programs and material is directed to the same end.
29. That the statistical and other reports the Committee has recommended be made public and be monitored annually by the Minister of Colleges and Universities to evaluate and determine the effectiveness of the Committee's recommendations.
30. That the Ontario Human Rights Code be amended to enable universities to ask for citizenship of applicants for teaching positions, and to permit discrimination in favour of Canadian citizens in faculty appointments to universities in Ontario.

#### CAPITAL MARKETS, FOREIGN OWNERSHIP AND ECONOMIC DEVELOPMENT

##### Provincial Role in the Capital Markets

31. The Government of Ontario should establish an appropriately staffed body in the Ministry of Industry and Tourism to monitor Canadian capital markets and to provide professional analysis and advice in relation to capital market processes.
- Foreign Portfolio vs. Direct Investment
32. Canadian economic policies should promote foreign portfolio investment and discourage foreign direct investment.
33. Greater attention should be given to developing and to drawing on foreign sources of capital other than the United States.

##### Review of Legislation Respecting Financial Institutions

34. The province of Ontario should initiate, in co-operation with the Federal Government, a review of the legislative framework governing financial institutions and processes with a view to improving the economic functioning of the Canadian financial system in support of Canadian economic development and ownership objectives.

##### Study Concerning Servicing Outpayments

35. A systematic and continuing study should be undertaken to examine the levels of outpayments associated with foreign direct investment in relation to the benefits received from that investment.

##### Development of Merchant Banking

36. The Government of Ontario should take steps to develop a merchant banking function in Ontario and in Canada on a priority basis.

37. The Province of Ontario in consultation and co-operation with the federal government and the governments of other provinces should sponsor the development of new legislative and tax regimes which would both govern and stimulate the development of the merchant banking function in Canada.
38. A specific new legislative regime governing institutions specializing in merchant banking should be established to give merchant banking institutions the appropriate powers and obligations to discharge the special nature of the functions which they would perform in the Canadian and Ontario economies.
39. It would be appropriate for the Government to participate to the extent of up to 50% of equity with private investors and appropriately qualified management and professional teams to assure the early development of a substantial merchant banking industry in Ontario and Canada.
40. The merchant banking institutions should be encouraged to make their services available in all regions of Ontario and Canada.
41. All merchant banks in Ontario and Canada should be and remain Canadian controlled and subject to the 25-10% foreign ownership rules. The Board of Directors of the merchant banking institutions should be at least 75% Canadian as a statutory requirement as in the Bank Act.

#### **Government Sponsored Expansion of the Venture Capital Industry**

42. The Government should sponsor the development of new venture capital firms in Ontario.
  - (i) Venture Investment Corporations
43. The Venture Investment Corporation proposal should incorporate participation by individuals.
  - (ii) Joint Venture Corporations
44. The Government of Ontario should take equity positions of up to one-third with a view to launching new regionally-oriented venture capital firms, under appropriately qualified management.
  - (iii) Assistance in Approaching Sources of Capital
45. Priority should be given to the development of an effective institutional process, designed on the one hand to inform those in need of financing about the potential sources of venture capital and to improve their ability in making attractive and effective presentations to those sources and on the other hand to bring sources of venture financing in contact with those requiring it.

#### **Expanded Roles for Ontario's Development Corporations**

46. In overall terms the predominant proportion of Ontario Development Corporation loans should be made to Canadian owned enterprises.
47. The scope, powers and resources of Ontario's Development Corporations—or any others which may in the future be created—should be expanded to provide for a capability in a number of areas in which they are not now active.
48. Ontario's Development Corporations should be empowered to secure through acquisition a government or Canadian presence in selected industries.
49. Ontario's Development Corporation should be suitably equipped with the legal and financial capacity to undertake reacquisition of enterprises should that be deemed in the public interest, to acquire enterprises coming up for sale from foreign owners for which no Canadian buyer can be found, provided that the acquisition is in the public

- interest, and to acquire on a temporary basis Canadian corporations which would otherwise fall into foreign-owned hands.
50. The Development Corporations should establish programs to provide assistance to Canadians for the acquisition of foreign-owned enterprises or control positions by Ontario and Canadian interests.
  51. The Government and Ontario's Development Corporations should examine the possibility of providing concessional financing for the machinery, equipment and engineering services associated with projects which Ontario industry in these areas is equipped to provide.
  52. Ontario's Development Corporation should conduct their affairs on the basis of securing reasonable returns on all their investments if possible.

#### Thin Capitalization Rules

53. Consideration should be given to extending the application of the thin capitalization rules along the lines of excluding the deduction of interest on the excessive debt of foreign controlled subsidiaries where that debt is ultimately guaranteed by the foreign parent.

#### Capital Market Depth and Minority Positions

54. Canadian economic policy should include programs designed to expand the proportion of private sector economic activity financed through the capital markets.
  - (i) The Kelso Technique
55. Consideration should be given to the adoption of the Employees Stock Ownership Trust Technique (ESOT) in order to improve the depth and liquidity of the capital market and in order to encourage and facilitate the issue of shares by foreign controlled corporations to Canadians.
56. The Canadian tax law should be amended to permit corporations to deduct, from income, payments made to the ESOT.
57. Securities legislation should be amended as follows:
  - (i) issues of shares by the corporation to the ESOT should be exempt from the prospectus requirements;
  - (ii) Summary reporting procedures, such as filing financial statements which contain minimum information, should be developed to facilitate the distribution of shares from the ESOT to the employees-beneficiaries and ultimately to the public.
58. The deductibility from income of payments made by the corporation to the ESOT should be available only if ownership of the shares issued by the corporation to the ESOT is limited to Canadians.

#### NATURAL RESOURCES, FOREIGN OWNERSHIP, AND ECONOMIC DEVELOPMENT

##### Resources vs. Manufacturing

59. Canadian economic policies should be reoriented such that greater emphasis be given to the development of the manufacturing sector and that the non-renewable resources sector should be de-emphasized.
60. The policy shift should involve not a discouragement of resource development but an encouragement of manufacturing and processing in Canada.

## Foreign vs. Canadian Ownership in the Resources Sector

61. One important goal of both provincial and federal resources policies should be the achievement of a strong and visible Canadian controlled presence in the non-renewable natural resources sector.\*

### Potential Policy Techniques

#### (1) Removal of Incentives

62. A study should be undertaken by the federal government to determine to what extent the operation of foreign tax systems neutralize the effect of Canadian incentives to the natural resources sector.

#### (2) Removal of Internal and External Impediments

##### (i) Internal Factors—Capital Market Gap.

63. Canadian resources policies, particularly in respect of non-renewable natural resources, should promote foreign portfolio rather than direct investment in Canadian ventures.

64. Greater attention should be given to developing and to drawing on foreign sources of capital other than the United States.

##### (ii) Internal Factors—Marketing Gap.

65. An important goal of both provincial and federal resources policies should be the improvement of Canadian controlled firms' ability vis-à-vis foreign controlled firms to develop secure markets for their output.

66. The Foreign Investment Review Agency in its review of direct investments in the non-renewable natural resources sector should consider, as an alternative to the direct investment, the development of relationships between the foreign investor and Canadian controlled firms such that the former would contribute its access to foreign markets and the latter would ensure supplies of resources.

##### (iii) External Factors—Foreign Tariff and Tax Policies.

67. A major goal of Canada in future tariff negotiations should be the removal of the current bias of world tariff structures that generally favour imports of unprocessed goods.

##### (iv) External Factors—Vertical Integration.

68. Federal and provincial resources policies should encourage the development of Canadian controlled vertically integrated resource firms.

### Existing Regulatory Approaches

#### (1) Processing in Canada

69. The goal of achieving more processing and fabrication of raw materials in Canada should be an important goal of natural resources policies.

70. Policy techniques designed to promote the goal of encouraging processing and fabrication in Canada should be directed to all firms in the industry irrespective of ownership.

71. Decisions to grant exemptions from the processing-in-Canada requirements under the Mining Act should be reviewed periodically and decisions to grant or refuse exemptions and the reasons therefore should be made public.

72. Consideration should be given to a system of "earning" reductions in tax according to a sliding scale depending upon the proportion of the output fabricated in Canada and upon the stage to which output is processed.

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

- (2) Other Policy Techniques  
Thin Capitalization Rules
73. Consideration should be given to extending the application of the thin capitalization rules along the lines of excluding the deduction of interest on the excessive debt of foreign controlled subsidiaries where that debt is ultimately guaranteed by the foreign parent.
- Potential New Techniques
74. As a general guide to the implementation of new policy initiatives in the natural resources sector these initiatives should apply to new developments and to proven reserves not currently exploited but not to developments currently being worked.
- (1) Mandated Ownership Requirements
75. A long-run goal of non-renewable natural resources policy should be to ensure that:
- (i) At least 75 per cent of the equity of all new ventures in the non-renewable natural resources sector after the implementation of the Committee's recommendations be owned by Canadians; and
  - (ii) No single non-resident or related group of non-residents own more than 10 per cent of the equity of ventures in the non-renewable natural resources sector.
76. The recommended Canadian ownership requirements in the non-renewable natural resources sector should be implemented in three stages over a 15-year period as follows:
- (i) After 5 years: At least 25% of the equity of non-renewable natural resources ventures must be held by Canadians;
  - (ii) After 10 years: At least 50% of the equity must be held by Canadians;
  - (iii) After 15 years: At least 75% of the equity must be held by Canadians and no more than 10% may be held by any one non-resident or related group.
77. Sanctions to be imposed on firms in violation of the Canadian ownership requirements should include the following:
- (i) Fines and/or imprisonment to be imposed on senior officers and directors who knowingly participate in the violation;
  - (ii) Until the firm complies, the rate of growth in both the gross assets and gross revenue of the firm should be limited to 0%.
- (2) Selective Government Equity Participation
- 78.
- (i) New ventures in the non-renewable natural resources sector should be required to file with the Government of Ontario notice of proposed operations;
  - (ii) The Government should be empowered to take up to 50% of the equity in new ventures in the non-renewable natural resources sector;\*
  - (iii) The Government should be required to notify the new venture whether and to what extent it wishes to take up equity within 15 days after filing of the notice. After the expiration of 15 days the Government would be deemed to have elected not to take up any equity.

Requests for Government equity participation initiated by firms in the natural resources sector should be screened by Ontario's Development Corporations and should be acted on only if:

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

- (i) the proposed venture is economically viable;
  - (ii) the proceeds of Government equity financing will be used in the development of the resource;
  - (iii) the required financing is not available from other Canadian sources;
  - (iv) control of the proposed venture will continue to be in the hands of Canadians; and
  - (v) Government equity participation is otherwise in the public interest.
79. As ventures in which it has an equity interest mature to the point that a secondary issue to the public is feasible, the Government should be empowered to offer its shares to the public at an appropriate price. The shares issued to the public should be constrained shares in that they cannot be sold to non-residents.
- (3) Royalty Payments in Shares
80. Considerations should be given to empowering the Treasurer to collect royalty payments in respect of new developments in the form of shares. The essential features of the recommended system would be as follows:
- 1. The fair market value of the shares transferred to the Treasurer should be equal to the amount of cash royalties that would otherwise be exigible; the class and quantity of shares issued should be acceptable to the Treasurer.
  - 2. The system should apply to both Canadian and foreign controlled firms.
  - 3. The maximum proportion of the outstanding voting shares issued to the Treasurer should not exceed 50 per cent at any time. Once the 50 per cent threshold is reached, royalty payments will be made in cash. If the corporation thereafter issues further shares, the corporation could again be required to pay royalties in shares until the 50 per cent limit is reached once more.
  - 4. The Treasurer should be empowered to sell shares on the public markets. However, the sale of shares by the Treasurer should not operate so as to require the Company to issue more shares to the Treasurer; in no situation should the total number of shares issued to (but not necessarily held by) the Treasurer exceed 50% of the outstanding shares at any given point in time.
- (4) Mining Machinery and Engineering Consulting Services

81. The Government should actively encourage the development of Canadian controlled firms in the mining machinery and equipment industry through the provision of loans and research assistance and through purchasing policies.
82. Policies should be developed to improve the performance of mining machinery and equipment firms in terms of exports, research and development and increasing Canadian value added.

#### ADVERTISING AND THE ADVERTISING INDUSTRY

##### Advertising Agency Business

##### Common Accounts

- 83. That all existing common accounts be eliminated and that no new ones be allowed to develop in the future.\*
- 84. That no deduction be permitted for income tax purposes for advertising agency commissions or fees be paid by an advertiser where a common account situation exists.\*

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

## New Agencies and Market Share of Billings

85. That the Ministry of Consumer and Commercial Relations monitor carefully on an annual basis the percentage breakdown of billings between Canadian and foreign owned agencies. That number of new advertising agencies in Ontario be similarly monitored. That to the maximum extent possible existing sources of data be used for this purpose, and that the aggregate figures for the industry be published.
86. That the Government of Ontario take appropriate action should the relative position of Canadian owned agencies deteriorate further in the future.
87. In the administration of the Foreign Investment Review Act, that the establishment of new foreign owned agencies or foreign takeovers of Canadian advertising agencies not be allowed unless the Canadian owned agencies' share of billings shows a steady pattern of increase.

## Direct Use of U.S. Agencies

88. That advertising placed through the U.S. offices of agencies when the advertising is directed primarily to Canadian consumers should be disallowed as deductions for income tax purposes.

## Importation of Creative Materials

89. That there be no further importation into Canada of creative advertising materials, including films, sound recordings, photography and print copy. That an exception be made for advertising material which is essential to accurately represent foreign tourist and recreational facilities.  
Should the above recommendations not be implemented, or in the interim period during which the foregoing recommendation is being phased in, the Committee recommends federal action to revise customs procedures so that customs valuation will reflect the true value of imported advertising material.

## Use of Non-Canadians in Canadian Commercial Production

90. That there be continued efforts to widen the opportunities for Canadian performing artists to work or appear in the United States on an occasional basis.

## Advertising and Advertising Content

That the Parliament of Ontario enact legislation to require:\*

91. That all advertising in Ontario take the form of complete, factual and balanced presentations relating to the actual properties and effects, and the proper use and maintenance of the products (or services) being advertised.
92. That all advertising be free from intentional or apparent features or devices which tend to develop artificial psychological associations of the product with sexual life or social status, or elegance, glamour or excitement of "lifestyle." The use of testimonials and other devices to promote artificial and inappropriate associations of products with well known personalities, their profession, success or lifestyle; and the inappropriate associational use of natural settings are examples of specific techniques which should be prohibited.
93. That approaches to complete, factual and balanced presentations of information about products and services which are creative, entertaining and attractive and which improve the communication of factual information or are incidental thereto, and do not detract from or undermine the emphasis on facts, completeness and balance, be encouraged.
94. That the Minister of Consumer and Commercial Relations establish appropriate machinery for the enforcement of these standards.

\*Indicates dissenting opinions or additional comments. See appropriate report for details.

## FINAL REPORT ON CULTURAL NATIONALISM

95. That at an early date a Select Committee on Cultural Affairs be struck to review and propose law and policy respecting cultural development and distinctiveness in Ontario and Canada having special regard to:
- the role and impact of the audio-visual and print media in shaping cultural attitudes and providing economic support to cultural activity and development in Canada and Ontario;
  - the implications of foreign, private and public control of cultural distribution systems for books, films, recordings, live performance bookings and other cultural property;
  - the quality and quantity of Canadian educational materials in both printed and audio-visual form;
  - encouraging the expression of desired cultural values in architecture, urban planning and industrial design;
  - the division of cultural responsibilities between government agencies and independent bodies;
  - the fostering of instruction in the French language, and the French culture, and making available second language instruction to all Ontarians;
  - support for multiculturalism and native culture in Ontario;
  - Canadian participation in international cultural processes and trends.

## FINAL REPORT ON ECONOMIC NATIONALISM

### Research and Development, Technology and Innovation

96. The Committee recommends that the Ministry of Industry and Tourism organize an Ontario agency for research, development, design and technology.
97. The Committee recommends that the agency be assigned the responsibility for developing, implementing and coordinating Ontario participation in national science policy.
98. The Committee recommends that this agency be directed to develop and sponsor revisions as appropriate in each major area of national and provincial science policy.
99. The Committee recommends that the Government of Canada in consultation with the provinces develop and implement criteria and procedures to review all market and marketing restrictions, tied procurement, provisions governing improvements, and the reasonableness of charges in connection with the importation of new technologies into Canada.
100. The Committee recommends that these procedures include and emphasize negotiations with foreign providers of technology as regards restrictions and terms.
101. The Committee recommends that the Ontario Agency for Research, Development, Design and Technology, in consultation with other Ontario agencies, the Government of Canada, and the governments of other provinces develop and articulate standards for assessment of both Canadian and foreign technologies.
102. The Committee recommends that there be developed and implemented differential tax treatment of imported "technological content" as opposed to that developed in Canada.
103. The Committee proposes that "technological content" be defined broadly so as to include research, development, management and marketing expenditures associated with product or technological development.
104. The Committee recommends that for each three dollars of imported "technological content" so defined there be allowed as a deduction only two dollars for income tax purposes. For each three dollars of Canadian "technological content" so defined the

Committee recommends that there be allowed a deduction of four dollars for income tax purposes. The Committee does not feel there is a need for exemptions to be provided for or considered.

105. The Committee recommends that the Ontario agency for research, development, design and technology give priority to the systematic identification of technological and related areas in which Ontario and Canada should concentrate their research and development efforts.
106. The Committee recommends that priorities include:
  - the degree to which existing technological systems have negative effects,
  - technologies which are especially promising in terms of contribution to environmental enhancement, resource conservation, job satisfaction values, and product durability,
  - technologies which might provide a basis for development of new Canadian industry or attract widespread international use.
107. The Committee recommends that the Ontario agency for research, development, design and technology undertake an immediate review of the system of funding of and returns to technological development in Canada.
108. The Committee recommends that priority be given to review and revision of Canadian patent, trademark, copyright and other legislation respecting intellectual property. The Committee recommends that new legislation in these areas be more directly supportive of technological development in Canada.
109. The Committee recommends that programmes of direct government funding, government purchasing policies, and new policy governing technological development in the public and private sectors be developed to increase the levels of technological development in Canada and the reinvestment of funds in further developmental efforts.
110. The Committee recommends that official policies and programmes include measures to ensure to the extent possible that technologies developed in Canada are also exploited and applied in Canada.
111. The Committee recommends that in the identification of promising areas for increased Canadian technological development, the Ontario agency for research, development, design and technology give special attention to industrial and technological sectors which are significantly foreign owned. The Committee recommends that the following be specifically emphasized:
  - industries where low or negligible research and development is associated with high levels of foreign ownership;
  - industries where there is special promise for wider Canadian participation because of the nature of the technology involved;
  - industries and technologies which are largely foreign owned but of special importance in relation to Canadian priorities (e.g. environment and resource conservation).
112. The Committee recommends that the Ministry of Industry and Tourism develop specific strategies for negotiation with Canadian subsidiaries of multinational enterprises, their parents, affiliates and other home and host governments, as appropriate for wider Canadian participation in technological development within multinational enterprises.
113. The Committee recommends that such negotiations be conducted within the framework of periodic review of foreign owned enterprises which the Committee has recommended.

## The Foreign Investment Review Act

114. The Committee recommends that the provincial secretariat for resources development, in close cooperation with other ministries of the government of Ontario, be given the responsibility of performing the following functions:
  1. to assist in the development and enunciation of provincial industrial and economic objectives and to define the role of foreign direct investment within the context of those objectives;
  2. to coordinate the role of the province in connection with the execution of the screening process;
  3. to receive notification of investments by non-eligible persons, to evaluate those investments with reference to Ontario's industrial and economic policies, and on the basis of that evaluation to communicate to the foreign investment review agency and to the investor Ontario's position whether or not the investment is compatible with Ontario economic and industrial policies; and
  4. to represent Ontario in negotiations with the investor where appropriate.
115. The Committee recommends that Ontario require that all notices and all material filed with the Foreign Investment Review Agency under the Foreign Investment Review Act be filed contemporaneously with the provincial secretariat for resources development by:
  1. non-eligible persons carrying on business or proposing to carry on business in Ontario; and
  2. non-eligible persons who acquire control of a business enterprise carrying on business in Ontario.
116. The Committee recommends that the application of the Foreign Investment Review Act be extended as follows:
  - (1) Foreign controlled firms having gross assets of \$25 million or more should be subject to an annual review;
  - (2) Foreign controlled firms having gross assets less than \$25 million should be subject to review only when notified by the Minister; in no event should such firms be subject to review more than once in any one year.
117. Whether or not the Foreign Investment Review Act is extended to cover the operations of existing foreign controlled firms, the Committee recommends that the review process be applied to takeovers of all firms, whether or not those firms are small businesses and regardless of whether the activity of the small business is related or unrelated to the business of the non-eligible person.
118. The Committee recommends that the economic criteria contained in the Foreign Investment Review Act be interpreted broadly to encompass existing Canadian operations of the non-eligible investor with a view to securing undertakings from the investor in connection with all his Canadian operations in order to render those operations of more benefit to Canada.

## Industrial Development Strategies

119. The Committee recommends that the governments of Canada in close cooperation give immediate priority to the development of industry specific strategies which together would constitute national and provincial plans for economic development. The review process under the Foreign Investment Review Act should be conducted to promote those strategies.

120. The Committee recommends that in developing industrial strategies, particular emphasis should be placed on selecting those industries for specialization that have the maximum potential for high Canadian skill content and high Canadian value added. With respect to rationalization, care must be taken to ensure that the process of rationalization promotes the development of Canadian managerial and research and development capabilities.
121. The Committee recommends that the process of developing the new industrial strategies explicitly recognize that Canada has an important interest in the removal of the current bias of world tariff structures that generally favour imports of unprocessed goods. A major goal of Canada in future tariff negotiations should be the removal of that bias.
122. The Committee recommends that in the process of developing industrial strategies, all major national and provincial economic policies of general application should be reviewed with a view to ensure that those policies are compatible in relation to each other and to ensure that those policies promote the new industrial strategies.
123. The Committee recommends that competition policy be developed within the context of industrial strategies and that competition policy be supportive of those strategies. The goals of competition policy should be construed widely in the sense of developing an efficient Canadian economy by world standards rather than narrowly in the sense of developing competition as an end in itself. Specifically, Canadian competition policy should include considerable scope for specialization and rationalization within industries, while at the same time ensuring that the benefits in terms of efficiency accrue to the Canadian economy as a whole.
124. The Committee recommends that Canadian transportation policies be reviewed and modernized, with particular attention being given to identifying the interrelationships between our transportation policies and other economic policies such as regional development and to ensure that our transportation policies and other economic policies are mutually reinforcing. In the review of transportation policies, consideration should be given to the development of a greater degree of competition with respect to the provision of rail service, one possibility being governments acquiring rail beds by purchase or lease, providing traffic control services, and calling for tenders for the provision of rail services over those beds.
125. The Committee recommends that in the development of appropriate manpower policies in connection with the industrial strategies all aspects of manpower policies should be taken into account, to minimize the dislocation of people including locational factors, dispersion of training opportunities and programmes in all areas of the province, apprenticeship programmes in trades and professions.
126. The Committee recommends that there be a continual re-evaluation of industrial incentive programmes to ensure that they continue to achieve their objectives efficiently and that they are supportive of and do not work at cross purposes with other economic policies.
127. The Committee recommends that a study be undertaken by the federal government to determine to what extent the operation of foreign tax systems neutralize the effect of Canadian incentive programmes.
128. The Committee recommends that as a general guide industrial incentive programmes favour Canadian controlled firms.
129. The Committee recommends that greater attention be given to the importance of adjustment assistance in connection with the development and execution of the new industrial development strategies.



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